CORNERSTONE
Independent Asset Management

PARTICIPANT PERSPECTIVES

Q1 2024

IS YOUR 401(K) PLAN DOING DOUBLE DUTY AS AN EMERGENCY FUND?

> **Taking money out of your retirement plan to pay for emergencies can have negative financial consequences.**

There has been a significant increase in the number of workers tapping into their retirement plan accounts to help pay living expenses and large, unexpected bills. The steep rise in the cost of living has put many workers under financial pressure and those lacking an emergency fund often resort to taking loans or hardship withdrawals from their retirement plans. Financial need and the recent relaxation of rules surrounding retirement plan withdrawals are driving this trend.

Recent data indicate that this shift is widespread: according to one of the nation's largest retirement plan providers, 2.8% of its more than five million 401(k) account owners took hardship withdrawals in 2022. That figure is up from 2.1% in 2021 and a pre-pandemic rate of 2%. And, in the one-year period between 2021 and 2022, the number of participants in the federal government's Thrift Savings Plan who took a hardship distribution increased by 50%.

ARE PLAN LOANS AND HARDSHIP WITHDRAWALS DESIRABLE?

Experiencing a financial emergency may lead individuals with no other option than to tap into their retirement plan. Unfortunately, a plan loan or hardship distribution can have a negative financial impact.

Taking a hardship withdrawal leaves less money in your plan account, reducing the amount invested for your future. A hardship withdrawal can also increase your regular tax liability. You may also owe a 10% early withdrawal penalty if you are under the age of 59½.

With a loan, you repay the money with interest to your retirement account. However, that interest could potentially be less than the return your plan investments might have earned had you not taken the loan. If you borrow money when the stock market is in a growth period, the missed earnings may be substantial.

CONSIDER ALTERNATIVES

Having an emergency fund of three-to-six-months' worth of living expenses gives you a substantial cushion

for those times when you might face a large, unexpected expense and could help you avoid the need to tap into your retirement plan. If you are considering applying for a plan loan or hardship withdrawal, however, make sure you first explore other options and talk to your financial and tax professionals about your situation.

THE ABC'S OF STUDENT LOANS

> **Here are some issues parents and future college students should consider before applying for college loans.**

The cost of attending college, public or private, places a significant financial burden on most parents and students. According to the annual College Board, the average cost of a public four-year college is now over $24,000, and over $56,000 for a private college.[1]

The reality for many parents and students is that college is only attainable by going into debt. However, a high level of student debt can be a financial burden and limit a graduate's options. Graduates struggling under high student debt levels may be forced to delay pursuing further educational opportunities or defer buying a first home.

These factors make it extremely important that parents and their children fully investigate what's involved in taking on college loans. It's equally important that they determine just how much debt they can afford and that they compare loan terms to find the most advantageous opportunities. Here are some issues parents and future college students should consider.

BE AWARE OF THE IMPACT STUDENT LOANS CAN HAVE ON YOUR FUTURE

According to recent research, the average student loan debt at graduation is about $31,000, and the average student loan payment is an estimated $391 per month, or 8.2% of the mean starting salary for new bachelor's degree holders.[2] Paying off this debt can pose a significant challenge, especially for students with high levels of education, who owe even greater amounts. It also puts them at a disadvantage when it comes to saving enough to get on the housing ladder or setting money aside for other goals, such as saving for retirement.

UNDERSTAND WHAT TAKING A LOAN ENTAILS

When you sign on the dotted line, you are making a legal commitment to repay what you borrow plus interest. If you fail to repay your loans or are late in making payments, your credit score will be impacted. A bad credit score means you will be charged a higher rate of interest on consumer loans than someone with a good credit score.

If you have a loan from the federal government, you can defer payments if you are unemployed. The government will typically pay the interest on your loan for the time you are unemployed. Some private lenders may also grant forbearance; however they are likely to add interest that was accrued during the forbearance period to the loan principal.

While federal education loans are intended to be paid back over 10 years, a borrower could enroll in an income-based, extended repayment, or pay-as-you-earn plan. These plans can cap monthly payments at a percentage of salary and extend the loan term as far out as 25 years.

WEIGH THE VALUE OF COLLEGE

College is not for everyone. Many high school graduates have successful careers that do not require a college degree. High school students who plan on attending college should discuss their goals with their parents and school counselors to be certain that this is what they really want.

The reality is that, while attending college can be expensive, data shows that a college degree generally boosts earning power over a lifetime. A student who is academically capable of handling college-level work and possesses a passionate interest in the subject of study is more likely to be successful in college.

STRATEGIES FOR SMART BORROWING

Before making any final decisions, step back and assess each financial aid package. First, focus on what is essentially "free" money: grants, scholarships, and other types of financial aid that do not need to be earned or repaid. Next, figure out how much your child will need to borrow. Begin with federal loans since they are generally cheaper and have more flexible repayment terms than private student loans.

Then, calculate repayment scenarios for each loan amount. Borrow only what your child will need — you are trying to minimize the debt burden your child will carry after graduation. If the numbers do not work, your child may have to consider attending a less expensive school or starting at a two-year college. Check whether your child's college of choice offers a tuition installment plan, one that spreads out the annual bill into monthly installments throughout the academic year. A tuition installment plan can help your child avoid taking on excessive long-term debt.

WORK WITH A PROFESSIONAL

Deciding where to go to college is both an exciting and stressful decision for young people. Figuring out how to pay for it can cause parents many sleepless nights. That's why it can be helpful to obtain the input of a financial professional well before your child decides where to attend college. A financial professional may be able to offer unique insights and advice on how parents can afford a college education for their children.

Source/Disclaimer

[1] *The College Board, Trends in College Pricing and Student Aid*, 2023.

[2] Education Data Initiative, *Average Student Loan Debt by Year*, January 2022.

CHANGES TO 2024 RETIREMENT PLAN LIMITS

Some changes are significant, reflecting high cost-of-living adjustments on account of inflation. The details can be found in the charts below.

The IRS has released the retirement plan limits for 2024.

EMPLOYER-SPONSORED PLANS		
ELECTIVE DEFERRAL LIMITS	**2024**	**2023**
401(k) plans, 403(b) plans, most 457 plans, Federal TSP		
Regular contributions	$23,000	$22,500
"Catch-up" contributions (individuals age 50 or older)	$7,500	$7,500
SIMPLE IRAs, SIMPLE 401(k)s		
Regular contributions	$16,000	$15,500
"Catch-up" contributions (individuals age 50 or older)	$3,500	$3,500
Annual addition limit: Defined Contribution Plans	$69,000	$66,000
Annual benefit dollar limit: Defined Benefit Plans	$275,000	$265,000
Limit on compensation that can be taken into account for most purposes	$345,000	$330,000
Key employee definition: compensation threshold	$220,000	$215,000
Highly compensated employee: compensation threshold	$155,000	$150,000
SEP plan: minimum compensation amount	$750	$750

ROTH IRAS		
	2024	**2023**
Maximum regular contribution	$7,000	$6,500
“Catch-up” contribution (individuals age 50 or older)	$1,000	$1,000
Contribution phase-out range		
Single	$146,000–$161,000	$138,000–$153,000
Married filing jointly	$230,000–$240,000	$218,000–$228,000
Married filing separately	$0–$10,000	$0–$10,000

TRADITIONAL IRAS		
	2024	**2023**
Maximum regular contribution	$7,000	$6,500
“Catch-up” contribution (individuals age 50 or older)	$1,000	$1,000
Deductibility phase-out range for those covered by an employer-sponsored retirement plan		
Single	$77,000–$87,000	$73,000–$83,000
Married filing jointly	$123,000–$143,000	$116,000–$136,000
Married filing separately	$0–$10,000	$0–$10,000
Deductibility phase-out range for individuals not covered by an employer-sponsored retirement plan but filing a joint return with a spouse who is covered by an employer-sponsored retirement plan	$230,000–$240,000	$218,000–$228,000

Cornerstone Advisors Asset Management, LLC
www.cornerstone-companies.com
participantservices@cornerstone-companies.com
(610) 694-0900

Securities offered through M Holdings Securities, Inc., a Registered Broker/Dealer, Member FINRA/SIPC. Investment Advisory Services are offered through Cornerstone Advisors Asset Management, LLC. Cornerstone Advisors Asset Management, LLC and Cornerstone Institutional Investors, LLC are independently owned and operated.

This information is for general and educational purposes and not intended as legal, tax, accounting, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. Information obtained from third-party sources are believed to be reliable but not guaranteed.

© Copyright 2024 M Financial Group. All rights reserved. #6571675.1 Expires 4/22/2026

M Financial Group | 1125 NW Couch Street, Suite 900 | Portland, OR 97209 | 800.656.6960 | fax 503.238.1815 | **mfin.com**