PARTICIPANT PERSPECTIVES

HOW INFLATION IMPACTS RETIREMENT PLANNING

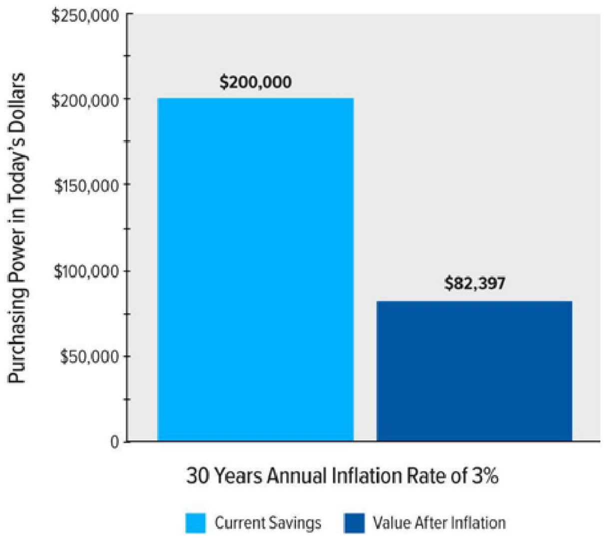
While it may not rival the double-digit rates of the early 1980s, inflation is now the highest it's been in 39 years. Because of its potential to erode wealth, every investor should take the time to understand what inflation is and how it might impact their ability to save for retirement.

What is Inflation?

At its most basic, inflation is the steady increase in the prices of goods and services over time within an economy. Changes in the rate of inflation are measured by the Consumer Price Index (CPI), a monthly report released by the Bureau of Labor Statistics that tracks what people spend on purchases like food, recreation, housing, apparel, transportation, medical care, education and communication, and other goods and services.

As prices rise, consumer purchasing power decreases. In real terms, that means inflation erodes the value of your long-term savings. For example, over a 30-year period, an average annual inflation rate of 3% will cut the purchasing power of a $200,000 savings account to just $82,397 (Figure 1).

Figure 1: Inflation Erodes Value Over Time



With the inflation rate having reached a 39-year high of 6.8% in November 2021 (Figure 2), investors would do well to factor inflation into their retirement planning. A higher rate could mean you'll need even more income than planned to maintain your pre-retirement standard of living. Moreover, retirees tend to face increased medical or health care costs. And health care inflation has been outpacing even the Consumer Price Index in recent years.

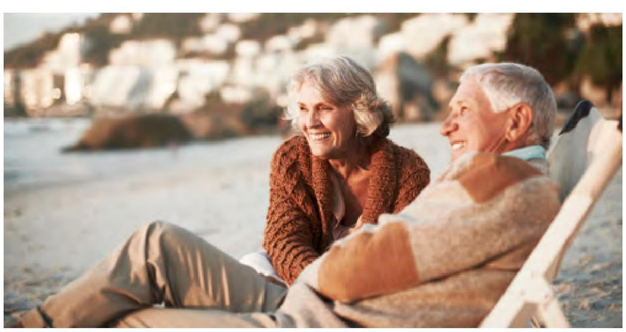
So, how can you prevent inflation from derailing your retirement goals?

Allocate Assets Effectively

One of the most effective things you can do is to have a thoughtful asset allocation strategy.* Asset allocation is the process of determining what percentage of your money to allocate to various asset classes, like domestic stocks, international stocks, real estate, commodities, bonds, cash, etc.

Riskier asset classes, like stocks, have historically beaten inflation and produced higher long-term returns than either bonds or cash alternative investments. In a low interest rate environment like what we've seen for the past decade, allocating too heavily to bonds or cash alternatives could put you at risk of not having what you need for retirement.

While past performance is no guarantee of future results, thoughtfully combining stocks and bonds in a diversified portfolio is more likely to help you generate the risk-adjusted returns you need to keep pace with inflation and stay on track to reach your retirement goals.



*Asset allocation does not guarantee a profit or protect against losses. While past performance is no guarantee of future results, thoughtfully combining stocks and bonds in a diversified portfolio is more likely to help you generate the risk-adjusted returns you need to keep pace with inflation and stay on track to reach your retirement goals.

Figure 2: Inflation Hits 39-Year High of 6.8% in November 2021

Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.

Source: U.S. Bureau of Labor Statistics.

Compare the average annual total returns for different asset classes with inflation over the past 20 years (Figure 3).

Figure 3: 20-Year Annualized Total Returns (CAGR)

20-YEAR AVERAGE ANNUAL TOTAL RETURNS	
Stocks[1]	9.72%
Bonds[2]	4.33%
Cash[3]	1.23%
Inflation[4]	2.28%

Returns shown are for the period ended 12/31/2021.

[1] Measured by Russell 3000 TR USD
[2] Measured by Bloomberg US Agg Bond TR USD
[3] Measured by FTSE Treasury Bill 3 Mon USD
[4] Measured by IA SBBI US Inflation

Past performance does not guarantee future results. Your investment results will be different. This chart is for illustrative purposes only and does not represent the performance of any particular investment. Investments cannot be made in an index. Stocks have greater return potential but are more volatile than other investment types. Unlike stocks and corporate bonds, government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer fixed rates of return and stable principal.

Source: Morningstar and M Wealth

Boost Your Savings Rate

You can also help protect your retirement savings by increasing your savings rate. Contributing more each year can help you keep pace with inflation.

For example, consider contributing some, or all, of any bonus you receive. Even a small increase in your savings rate can make a significant difference in your account value at retirement.

Work with a Financial Professional

To be sure you are on track to a comfortable retirement, work with a financial professional who has your best interests at heart. They can help you establish the right mix of investments in your retirement account and then monitor your account on a regular basis to ensure your investments are generating returns equal to or greater than the rate of inflation.

WAIVER ON RMDS EXPIRES—WHAT NEXT?

Since the CARES Act waiver on required minimum distributions (RMDs) from retirement plans has expired, now may be a good time to review the rules for tax-deferred retirement accounts.

Retirement plans, such as 401(k)s and individual retirement accounts (IRAs), enable tax-deferred growth of investments in the plan account, as well as pretax or potentially tax-deductible contributions. The potential to grow wealth on a tax-deferred basis is an attractive feature designed to encourage retirement saving. But the tax deferral benefits of these retirement accounts don't last forever.

The Ground Rules

Generally, prior law said that you must begin taking required minimum distributions (RMDs) from your traditional IRA no later than April 1 of the year following the calendar year in which you reach age 70½. The RMD rules for 401(k) plans were basically the same.

However, the rules also said that participants who are not considered to be 5% owners of the company and are still employed by the employer maintaining the 401(k) plan when they reach age 70½ generally are not required to begin taking RMDs until April 1 of the year following the calendar year in which they retire.

Changes and More Changes

Lawmakers recently changed the RMD rules. For individuals who reach age 70½ after December 31, 2019, the Setting Every Community Up for Retirement Enhancement (SECURE) Act increased the age at which minimum distributions must begin from age 70½ years to 72 years. Additionally, to mitigate some of the economic impact of the pandemic, the Coronavirus Aid, Relief and Economic Security (CARES) Act waived the minimum distribution requirement for defined contribution plans and IRAs for 2020. However, the waiver introduced under the CARES Act has not been extended into 2021.

What To Do Now

- If you were already taking RMDs before 2020, you had already reached age 70½. All you need to do now is resume distributions this year using the current life expectancy tables, your age, and your account balance at the end of 2020.
- If you turned 70½ in the first half of 2019 and were planning to take your first RMD in 2020 (by the April 1 deadline) but did not do so due to the waiver, you will have to start taking RMDs in 2021.
- If you reached, or will reach, age 70½ after 2019, RMDs are required to start at age 72 instead of age 70½.
- If you turn 72 in 2021, you will have until April 1, 2022, to take your 2021 RMD. If you take your first RMD on April 1, 2022, you will be required to make another withdrawal by December 31, 2022. The bottom line is that you will have to take two RMDs in 2022 and subsequent RMDs every year by December 31.
- RMD payments are *not* rollover eligible. The administrator of your company plan can provide further details regarding the plan's specific requirements and whether you are considered a 5% owner.

How Much to Withdraw

The amount you will have to withdraw to satisfy the RMD rules will vary from year to year. Generally, the amount is calculated by dividing your account balance at the end of the prior year by an age-based factor taken from the "Uniform Lifetime Table," which is available on the IRS's website.

However, a different table must be used under certain circumstances. The IRS has updated the life expectancy tables for 2022 and later years.

You must be careful since you can be penalized for taking out too little. The penalty is 50% on the amount not withdrawn as required. There's *no* penalty for taking out more than the required annual amount. Just be aware that any additional withdrawals are generally taxable and are *not* counted toward RMDs for future years.

If you have questions about RMDs and how the expiration of the waiver may affect you, please consult with a trusted financial professional.

PLANNING FOR A MARKET DOWNTURN

Because stock market crashes can be terrifying to contemplate, investors often avoid thinking about them at all—especially during long-running bull markets like the one we've seen these past 12 years.

Market downturns, or corrections, tend to happen when people least expect. Like a bad blizzard or dangerous hurricane, investors know another is likely to occur—but when and how big are anyone's guess. Even though no one can predict when the next storm will hit, there are things investors can do to feel better prepared for the next severe market decline.

And contrary to human behavior, the best time to act is before the next market downturn occurs. Waiting until the winds start to gust, or the rain starts to fall, can be costly. So, what can investors do now to prepare for market volatility in the future?

Stay Invested

First, it's important to acknowledge that basic human instincts are at odds with what it takes to invest successfully over the long term. After all, what did our ancestors do when faced with danger? It was either fight or flight. "Do nothing" probably wouldn't have been a good strategy, but it's exactly what most investors should do when a sharp downturn occurs.

Be Patient

Patience is key. As Oracle of Omaha Warren Buffet says, "The stock market is a device for transferring money from the impatient to the patient." When markets are volatile, either up or down, it's easy for investors to let emotions like euphoria or fear get the better of them, causing them to make impulsive investment decisions. Being aware of how emotions can impact decision-making is a great first step to avoiding making bad investment choices when a market decline does happen.

Resist the Urge to Sell at the Wrong Time

A well-known cognitive bias humans have is loss aversion. Put simply, people have a stronger negative reaction to losing money than they do a positive reaction to gaining the same amount. How does loss aversion play out for investors? It can cause investors to sell at their most panicked, when stock prices have already considerably declined.

When panic sets in and investors are tempted to sell, stop and ask:

- Who is buying my shares?
- Why would they buy my shares?
- Could it actually be a good time to buy?

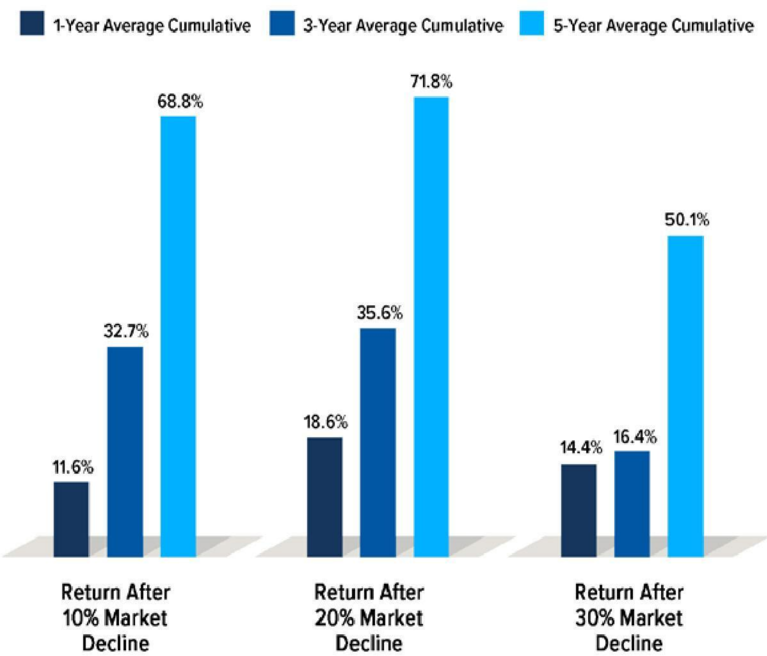
Asking these questions reminds one that there are two sides to every trade. And the person on the other side may be just as knowledgeable, or more so, on current and future economic conditions. Thinking about the answers to these questions can temper the urge to sell. Bear markets don't pose the same "danger" that saber-toothed tigers did our ancestors. Pausing and thinking critically can help overcome the fight or flight instinct.

Use History as Your Guide

Knowledge of how markets have behaved in the past can be a highly effective tool for calming investor emotions or overcoming cognitive bias. What many investors don't realize is just how quickly markets tend to bounce back after hitting bottom. In Figure 4, an analysis of bounce backs since 1926 shows that markets tend to rebound swiftly and strongly.

Selling during times of fear can cause investors to miss out on the sizable recoveries that have historically followed downturns. Those who choose to stay invested tend to achieve higher returns over the long-term than those who cash out altogether or who exit the market near its lowest point, only to reinvest a year later (Figure 5).

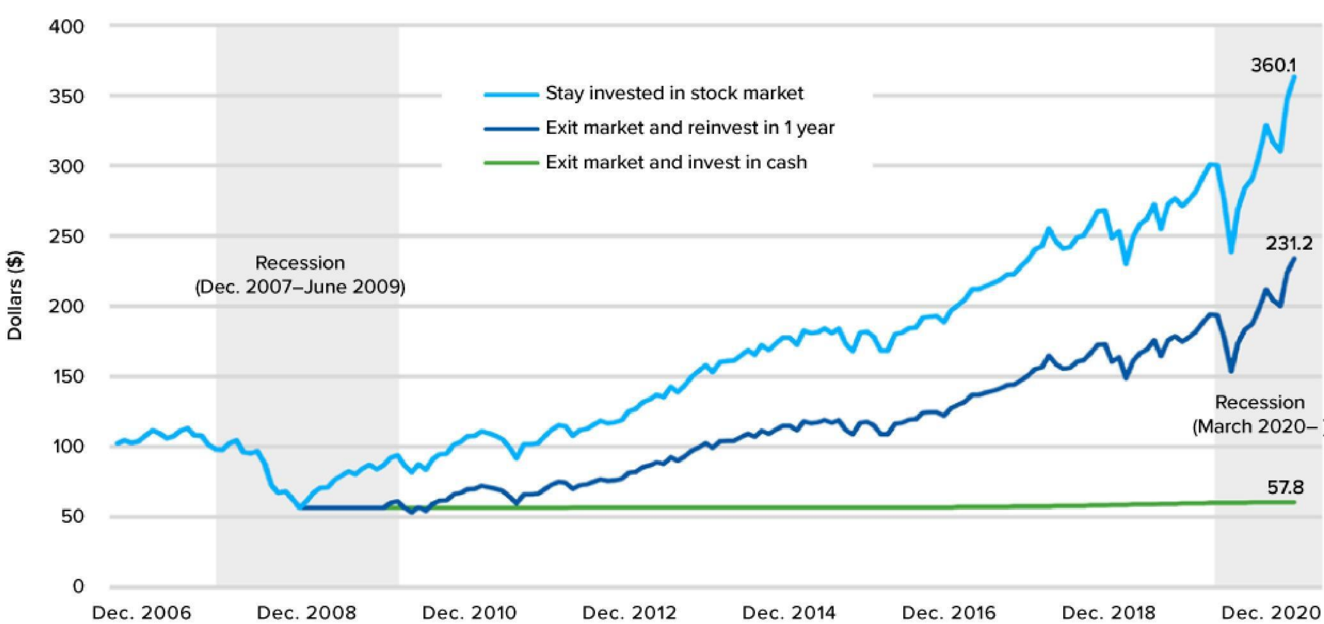
Figure 4: Markets Can Bounce Back Swiftly and Strongly



FAMA/FRENCH TOTAL US MARKET RESEARCH INDEX 1926—present: Fama/French Total US Market Research Factor and One-Month US Treasury Bills. Source: Ken French website. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful. Past performance is no guarantee of future results. Short-term performance results should be considered in connection with longer-term performance results. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio.

Market declines or downturns are defined as periods in which the cumulative return from a peak is –10%, –20%, or –30% or lower. Returns are calculated for the 1-, 3-, and 5-year look-ahead periods beginning the day after the respective downturn thresholds of –10%, –20%, or –30% are exceeded. The bar chart shows the average returns for the 1-, 3-, and 5-year periods following the 10%, 20%, and 30% thresholds. For the 10% threshold, there are 28 observations for 1-year look-ahead, 27 observations for 3-year look-ahead, and 27 observations for 5-year look-ahead. For the 20% threshold, there are 14 observations for 1-year look-ahead, 13 observations for 3-year look-ahead, and 13 observations for 5-year look-ahead. For the 30% threshold, there are 6 observations for 1-year look-ahead, 3-year look-ahead, and 5-year look-ahead. Peak is a new all-time high prior to a downturn. Data provided by Fama/French.

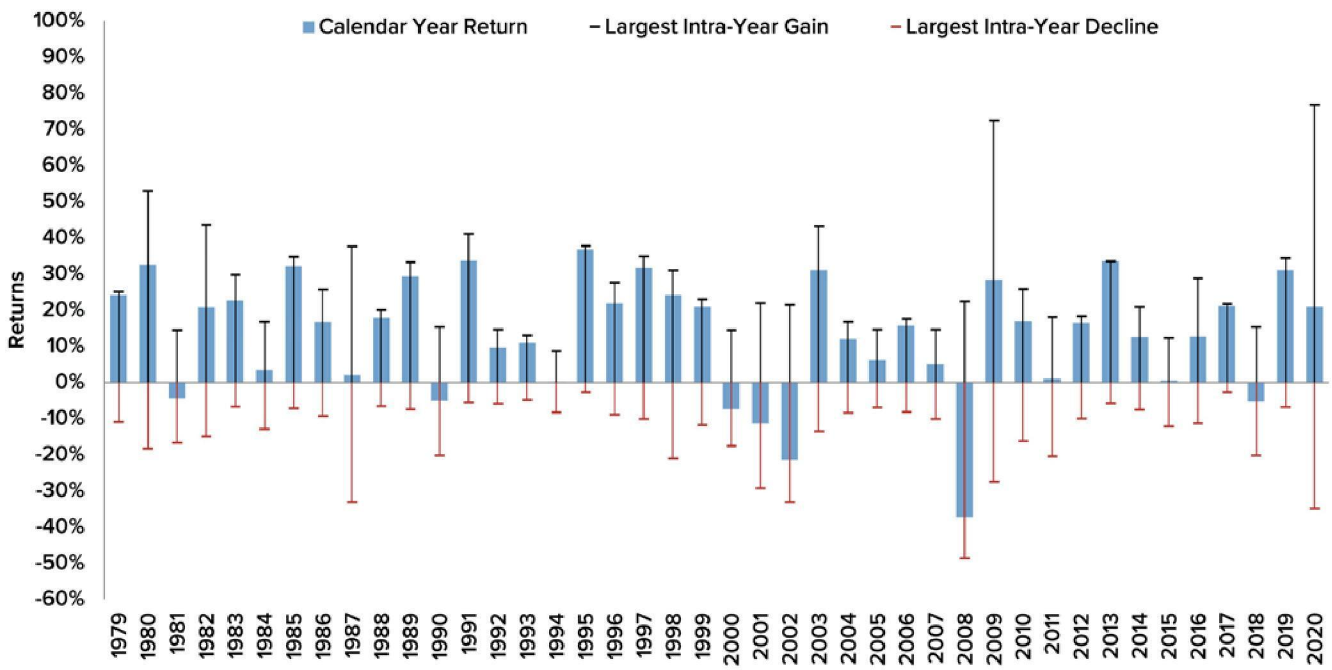
Figure 5: The Importance of Staying Invested



The image illustrates the value of a $100 investment in the stock market during the period 2006-2020. Data sources: Strategic Capital Investment Advisors. The market is represented by the Russell 3000 Index. Cash is represented by the 30-day U.S. Treasury bill. An investment cannot be made directly in an index. The data assumes reinvestment of income and does not account for taxes or transaction costs. This is for illustrative purposes only and not indicative of any investment. This information has been taken from sources, which we believe to be reliable, but there is no guarantee as to its accuracy. For index definitions please visit **http://mfinwealth.com/index**.

Short-term volatility can be the wind that whips up investors' emotions, but as Figure 6 shows, market highs and lows throughout the year are nearly always muted by the time the year ends. In other words, investors may want to resist the urge to sell (or buy) when emotions are running high. Instead, consider staying invested and focused on your long-term plan.

Figure 6: Short-term Fluctuations Rarely Result in Annual Changes



Data source: Dimensional Fund Advisors. In US dollars. Data is calculated off rounded daily returns. US Market is the Russell 3000 Index. Largest Intra Year Gain refers to the largest market increase from trough to peak during the year. Largest Intra Year Decline refers to the largest market decrease from peak to trough during the year. Past performance is not a guarantee of future results. An investment cannot be made directly in an index. This information has been taken from sources, which we believe to be reliable, but there; is no guarantee as to its accuracy. For index definitions please visit **https://mfinwealth.com/index**.

Feel Better Prepared

Preparing for an eventual market downturn is no different than prepping for any challenging event. A winning strategy includes practicing how you'll react when the event occurs and having a plan to fall back on for when you're less able to make rational decisions.

Understanding how emotions can impact decision-making and knowing how markets have behaved during previous downturns and afterwards may help investors feel better prepared for the inevitable, yet unpredictable, market storm—and less anxious when the clouds do descend.

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How Inflation Impacts Retirement Planning #4144636.1 Expires 1/25

Waiver on RMDs Expires—What Next? #414528.1 Expires 1/2024

Planning for a Market Downturn #4056457.1 Expires 12/2023

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