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EMPYRION™
WEALTH MANAGEMENT

November 3, 2022

Monthly Insight

Good News from the IRS—No, Really!

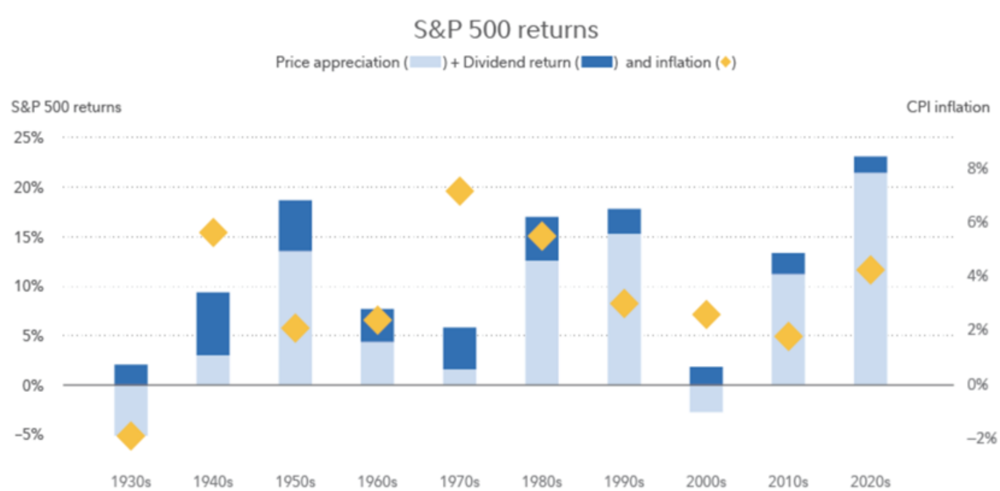
On October 21, the Internal Revenue Service announced 2023 contribution limits and other provisions for retirement plans. Next year, participants in 401K, 457 (for state and municipal employees), and 403B (for nonprofit organizations and schools) will be able to contribute up to $22,500, almost a 10% increase from the current limit of $20,500. IRA owners will be able to contribute up to $6,500, a 9.2% increase from the current limit of $6,000. While the IRA catchup provision for additional contributions by those 50 and older remained the same at $1,000, the provision for 401Ks and 403Bs rose by a hefty 15%, to $7,500 from $6,500. This means that for those eligible for the catchup provision who are enrolled in employer-sponsored plans, the annual contribution limit in 2023 is $30,000.

Why would the IRS announce such a big increase in the amount people are able to save in their retirement accounts? One word: inflation. Recognizing that the cost of living is rising higher than it has in decades, the IRS is permitting a higher rate of savings to allow better preparation for the costs Americans are likely to encounter in retirement.

So you should probably max out your accounts, right? That would be great, but if you do, you'll be in the minority. According to a recent Vanguard report, only 14% of account holders were contributing the maximum amount annually to their employer-sponsored plans, even though the majority surveyed had income in excess of $150,000 annually. For major plan provider Fidelity, the percentage was even lower, at just under 10%. In other words, most of us are grossly under-utilizing the tax-advantaged savings opportunities offered by our employer-sponsored plans. Especially if you're among those fortunate enough to have an employer matching provision (where your employer matches some portion of your contributions to the plan), you should seriously review your budget to try and free up more funds for contribution to your plan. After all, "free money" is hard to find.

And while we're on the topic of retirement savings and income, remember that it really matters what your 401K or other retirement plan assets are invested in. Most plans offer some choice of the types of investments you can make with your funds, and especially in the current inflationary environment it's important to consider the long-term growth characteristics of your plan assets. Whether it's US Treasury inflation-protected securities (TIPS), which are US Treasury bonds indexed for inflation, or carefully diversified holdings in dividend-paying stocks or stock mutual funds, consideration of the long-term effects of inflation on your purchasing power is a vital part of effective planning for a successful retirement. Some investors, fearful of the volatility of the markets, tend to keep too much of their portfolio invested in short-term government or bank obligations that, while very safe in terms of maintaining their value in the short term, have a relatively poor track record over the long term when it comes to keeping pace with inflation. For persons with ten years or more until retirement, investing to beat inflation is very important. In fact, with people living longer and longer after retirement, even those in the early years of their "second act" should carefully consider the importance of growth in their investments, since they will need to maintain their purchasing power for ten, twenty, or perhaps even thirty years.

As the following chart indicates, the double benefit of price appreciation and income from dividends offered by many of the stocks making up the S&P 500 has provided a valuable hedge against inflation for many investors, going all the way back to the 1930s. Though there have been difficult years, over the long haul, diversified portfolios of equity (stock) investments have generally fared well in both maintaining and increasing value above the rate of inflation.



SOURCE: Bloomberg Financial LP, Morningstar, and Fidelity Investments, as of 7/31/22. Past performance is no guarantee of future results; indexes are not available for direct investment.

Those receiving Social Security benefits have also seen a boost because of inflation. The Social Security Administration recently announced that current recipients will get an 8.7% boost in their benefit payments in 2023, thanks to inflation. But even for those not yet receiving payments from Social Security, it's important to consider your future benefits and what part they will play in your retirement income. Generally speaking, the longer you wait to begin receiving benefits, the larger your monthly check will be. Every year you delay receiving benefits, from your full retirement age (66 for those born between 1943 and 1954, gradually increasing to 67 for those born 1955–1960) your benefit will increase by about 8%. Benefits maximize at age 70. So, if you can afford to wait (especially if you are in generally good health and have income from sources other than Social Security), holding off until age 70 can boost your income for the rest of your life, once you start receiving it. And by the way, if you're 50 or older and you haven't yet set up your free online My Social Security account, you should do so immediately. Your account gives you access to handy planning tools, and establishing the account also makes it harder for identity thieves to use your Social Security number for scams or to falsely claim your benefits.

Empyrion Wealth Management is a fiduciary financial advisor, which means that no matter what part of the market cycle we're in or whether the economy is expanding or contracting, we are ethically and professionally obligated to provide advice that puts our clients' best interests ahead of everything else. When you're making important financial plans—for retirement, college funding, philanthropic goals, or anything else—you need an advisor whom you can trust to put your needs first. To learn more about what it means to work with a fiduciary advisor, click here to read our white paper, "The Fiduciary Standard and the Individual Investor."

Stay Diversified, Stay YOUR Course!

SOCIAL MEDIA DIGEST

In case you missed them, here is a roundup of my latest posts on social media:

Building a viable nest egg is only one component of a successful retirement income strategy. Your plan for capitalizing on those assets and using them to sustain your new lifestyle is equally critical. Our team leverages the power of dynamic portfolio design and in-depth planning to provide clients with a seamless, successful transition into #retirement. #financialplanning #wealthmanagement #retirementplanning

For thriving #retirees and other #investors, there are a few key questions that most ask themselves at some point along the way. Here are ten important questions that every investor should carefully consider.

We've all heard the saying, "You can't teach an old dog new tricks." Well, we disagree. If you're considering a #careerchange, don't

let fear stop you. Use this checklist to prepare for your job change, to make sure the opportunity you're looking at is the right one for you, and to make a smooth transition into the next phase of your life journey. #financialplanning #wealthmanagement

KIMBERLY FOSS

President, CFP®, CPWA®, CFT-I™ Candidate

"We understand that every person we serve has distinct values and ambitions, and they each need their own plan for wealth management."