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Commerce Concepts

Market Updates, Asset Allocation, and Investment Education for Plan Participants and Individuals

401(k) and IRA: A Combined Savings Strategy

Contributing to an employer-sponsored retirement plan *or* an IRA is a big step on the road to retirement, but contributing to *both* can significantly boost your retirement assets. A recent study found that, on average, individuals who owned both a 401(k) and an IRA at some point during the six-year period of the study had combined balances about 2.5 times higher than those who owned only a 401(k) or an IRA. And people who owned both types of accounts consistently over the period had even higher balances.[1]

Here's how the two types of plans can work together in your retirement savings strategy.

Convenience vs. Control

Employer-sponsored plans such as 401(k), 403(b), and 457(b) plans offer a convenient way to save through pre-tax salary deferrals, and contribution limits are high: $20,500 for 2022 and an additional $6,500 for those age 50 or older. Although the costs for investments offered in the plan may be lower than those offered in an IRA, these plans can offer more limited investment choices and have restrictions on control over the account, such as rules that govern how and when money can be withdrawn.

IRA contribution limits are much lower: $6,000 in 2022 ($7,000 if age 50 or older). But you can usually choose from a very wide variety of investments, and the account is yours to control and keep regardless of your employment situation. Whereas contributions to an employer plan generally must be made by December 31, you can contribute to an IRA up to the April tax filing deadline. Additionally, employer plan contributions must be made via a salary deferral agreement that may restrict how often you can modify the amount of your contributions, while IRA contributions can be made when and as you are able (subject to the limits and deadlines above).

Matching and Diversification

Many employer plans match a percentage of your contributions. If your employer offers this program, it would be wise to contribute at least enough to receive the full match. Contributing more would be better, but you also might consider funding your IRA, especially if the contributions are deductible (see Rules and Limits below).

Along with the flexibility and control offered by the IRA, holding assets in both types of accounts, with different underlying investments, could help diversify your portfolio. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

Rules and Limits

Although annual contribution limits for employer plans and IRAs are separate, your ability to deduct traditional IRA contributions phases out at higher income levels. If you

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WIN A $25 GIFT CARD

to your choice of Powell's or Amazon! (See page 2 for details)

Congratulations to our most recent winner:

Isaac C. of Mathys-Potestio, LLC

Visit ***thecommco.com/commerce-concepts*** *for the answer to last issue's question.*

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Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends. See page four for index definitions.

Source: Raymond James Financial Services

To be entered into a drawing to win a

$25 GIFT CARD,

email free@thecommco.com with the answer to this question:

Which account type has a higher annual contribution limit, a 401(k) or an IRA?

Market Update

Through December 31, 2021

		Trailing Returns			
		3 mos	12 mos	5 yrs	10 yrs
Blue Chip US Stocks	Dow Jones Industrial Average	7.87%	20.95%	15.51%	14.21%
Large Company US Stocks	S&P 500	11.03%	28.71%	18.47%	16.55%
Small Company US Stocks	Russell 2000	2.14%	14.82%	12.02%	13.23%
Non-US Stocks	MSCI EAFE (Gross Div)	2.74%	11.78%	10.07%	8.53%
US Bonds	Bloomberg US Aggregate	0.01%	-1.54%	3.57%	2.90%
Cash Alternatives	ICE B of A 3 Month US Tsy Bill	0.01%	0.05%	1.14%	0.63%

Economic Snapshot

Gross Domestic Product (GDP)
GDP growth is expected to moderate (relative to the strong pace of 2021) but remain above a long-term sustainable pace in 2022.

Employment
Nonfarm payrolls are still below where they were before the pandemic, but labor demand is strong. Better wages should lure many of those on the sidelines back into the workforce.

Housing and Construction
Housing demand remains strong and mortgage rates are still relatively low. However, shortages of labor and materials have restrained supply and higher home prices have reduced affordability.

Manufacturing
Supply chain difficulties, materials shortages, and labor issues have continued, restraining growth, but we should see some improvement in 2022.

Monetary Policy
The Fed is expected to raise short-term interest rates by the middle of the year, possibly sooner. The risk of a monetary policy error has increased.

Inflation
Inflation is higher and persistent. Price increases have broadened in recent months. We should see some rollback in prices of consumer durable goods in 2022, but inflation in services (including rents) is more worrisome.

Investment Strategy Quarterly: Published by Raymond James and Associates, January 2022. For a complete PDF copy of the January 2022 issue of Investment Strategy Quarterly, click here or email newsletter@thecommco.com.

December Market Review

Despite the challenges posed by coronavirus variants and extreme weather events, 2021 saw the best economic growth since 1984, muted market volatility, and an S&P 500 annual return of approximately 27%. The situation remains fluid, but there's general optimism that the global reopening will continue and inflationary pressure will subside. Both will be key factors for growth and earnings in 2022.

Overseas markets faced similar challenges, yet European equity markets hit new 2021 highs during December. Corporate earnings growth for 2022 is anticipated to be above 10%, aided by a combination of general global export recovery and the current low level of both the euro and the pound against the dollar and the Chinese yuan.

The Fed began to taper the pace of its monthly asset purchases, and financial markets seem to have priced in rate hikes sooner than later. Given that monetary policy has been so influential to equity markets post-credit crisis, the Fed's tightening policy could come with more moderate returns and normal volatility over the coming year, notes Joey Madere, senior portfolio analyst, Equity Portfolio & Technical Strategy.

For additional asset allocation and disclosure information, please [click here] or visit the Resources section of our website at

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Strategic Asset Allocation Models

As of January 2022

Equities
Fixed Income
Cash Alternatives

	Conservative	Moderate	Balanced	Growth	Aggressive
Equity	**30%**	**50%**	**67%**	**83%**	**98%**
Equity allocation comprises:					
U.S. Large Cap Blend	20%	24%	29%	35%	41%
U.S. Large Cap Growth	0%	3%	5%	7%	8%
U.S. Large Cap Value	0%	3%	5%	7%	8%
U.S. Mid Cap Equity	4%	7%	9%	11%	13%
U.S. Small Cap Equity	1%	3%	5%	7%	8%
Non-U.S. Developed Market Equity	5%	10%	10%	12%	15%
Non-U.S. Emerging Market Equity	0%	0%	4%	4%	5%
Fixed Income	**68%**	**48%**	**31%**	**15%**	**0%**
Fixed income allocation comprises:					
Investment Grade Intermediate Maturity	45%	32%	21%	12%	0%
Investment Grade Short Maturity	13%	7%	5%	0%	0%
Non-Investment Grade (High Yield)	7%	6%	5%	3%	0%
Non-U.S. Fixed Income	3%	3%	0%	0%	0%
Multi-Sector Fixed Income	0%	0%	0%	0%	0%
Alternative Investments	**0%**	**0%**	**0%**	**0%**	**0%**
Cash & Cash Alternatives	**2%**	**2%**	**2%**	**2%**	**2%**
Totals	**100%**	**100%**	**100%**	**100%**	**100%**

These asset allocation targets are based on our changing views of the risk and return in the various asset classes, looking out over three or more years. The models assume fully allocated portfolios and do not take into account outside assets, additional cash reserves held independent of these models, or any actual investor's unique circumstances. Investors should consult their financial advisor to decide how these models might assist in the development of their individual portfolios. Material is provided for informational purposes only and does not constitute a recommendation.

The investment profile is hypothetical, and the asset allocations are presented only as examples and are not intended as investment advice. Asset allocation and diversification do not assure a profit or protect against loss. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in small- and mid-cap stocks generally involves greater risks, and therefore may not be appropriate for every investor. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Real estate investments can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

Index definitions: The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The ICE BofAML 3-Month US Treasury Bill index consists of a single issue that is purchased at the beginning of the month and held for a full month. At month's end, that issue is sold and rolled into a newly selected issue, which is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. The selected issue must have settled on or before the month-end rebalancing date.

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are covered by a workplace plan eligibility phases out at modified adjusted gross income (MAGI) of $68,000 to $78,000 and $109,000 to $129,000 in 2022. If you are not covered by a workplace plan, but your spouse is, eligibility phases out at MAGI of $204,000 to $214,000 for joint filers in 2022. You can make nondeductible contributions to a traditional IRA regardless of income.

Eligibility to contribute to a Roth IRA phases out at higher income levels regardless of coverage by a workplace plan: MAGI of $129,000 to $144,000 for single filers and $204,000 to $214,000 for joint filers in 2022.

Pre-tax contributions to employer-sponsored plans and deductible contributions to traditional IRAs provide an upfront tax benefit and accumulate tax deferred. Distributions are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½ (with certain exceptions). Nondeductible contributions to a traditional IRA are not taxable when withdrawn, but any earnings are subject to ordinary income tax.

Required minimum distributions (RMDs) from employer-sponsored plans and traditional IRAs must begin for the year you reach age 72 (70½ if you were born before July 1, 1949). However, you are generally not required to take distributions from an employer plan as long as you still work for that employer, unless you are an owner of the company.

Roth IRA and Roth 401(k) or 403(b) contributions are not deductible, but can be withdrawn (subject to plan rules, in the case of employer sponsored plans) without penalty or taxes. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth distributions must meet a five-year holding requirement and take place after age 59½ (with certain exceptions). Original owners of Roth IRAs are exempt from RMDs. Beneficiaries of all IRAs and employer plans must take RMDs based on their age and relationship to the original owner.

1) Employee Benefit Research Institute, 2020