

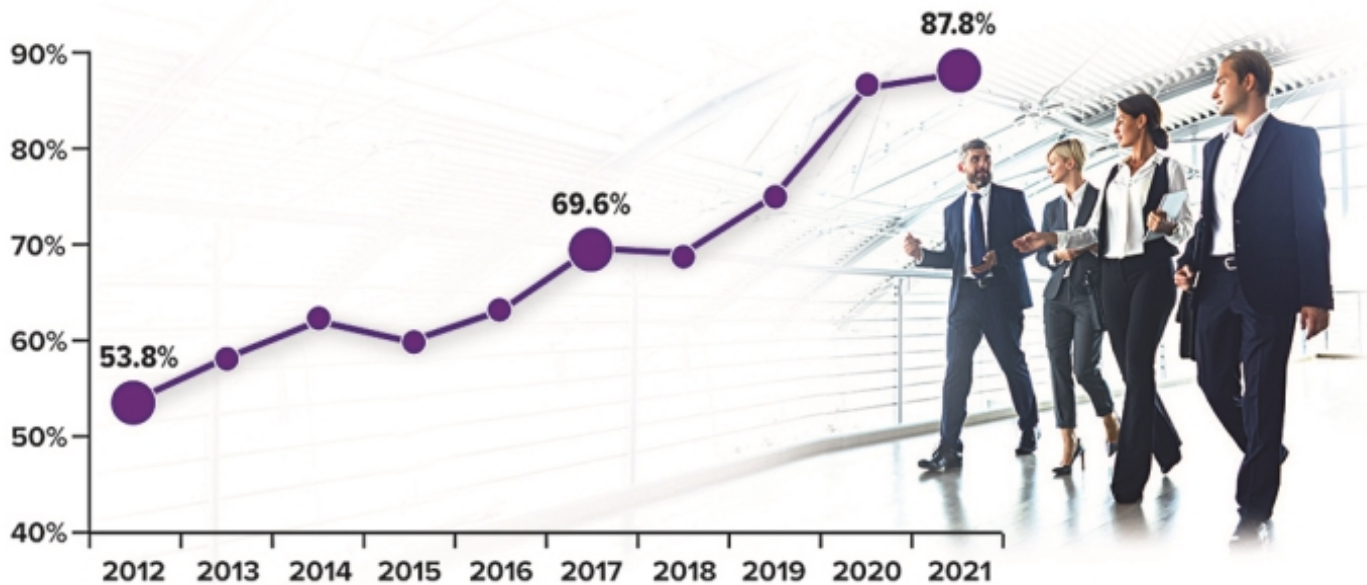
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Employee Access to Roth 401(k) Plans on the Rise

Roth 401(k) plans can offer an ideal opportunity to build a source of tax-free retirement income. There are no income restrictions to participate, they have much higher contribution limits than Roth IRAs, and they may offer employer matching contributions. And thanks to the SECURE 2.0 Act of 2022, beginning in 2024, Roth 401(k)s will no longer impose required minimum distributions in retirement. The percentage of employers offering a Roth 401(k) plan grew substantially from 2012 to 2021, a trend that may continue.



Qualified withdrawals from Roth 401(k)s are free of federal income taxes if the account is held for at least five years and the account holder reaches age 59½, becomes disabled, or dies. State income taxes may apply. Nonqualified withdrawals are subject to regular income taxes and a 10% penalty.

Source: Plan Sponsor Council of America, 2022

Four Key Objectives of a Sound Retirement Plan

A sound retirement plan should be based on your particular circumstances. No one strategy is suitable for everyone. Once you're retired, your income plan should strive to address four basic objectives: earn a reasonable rate of return, manage the risk of loss, maintain a source of sustainable and predictable income, and reduce the impact of taxes.

Earn a Reasonable Rate of Return

Your retirement savings portfolio will likely be used to provide at least a portion of your income throughout retirement. The overall goal is to maintain an amount that produces the necessary income each year. This requires accounting for the rising costs of goods and services (including health-care expenses); identifying your budgetary needs and wants; estimating how long you'll expect retirement to last; and factoring in Social Security and other income sources. It also requires estimating a rate of return you'll need to earn on your portfolio and then putting together an investment strategy to pursue that target rate.

If you have enough savings to meet your retirement needs, you'll want to maintain that level of savings throughout your retirement years. That's why it's important to strive for a realistic rate of return on those savings. Of course, determining a reasonable rate of return depends on your individual circumstances and goals.

Manage Risk of Loss

If you have sufficient savings to meet your retirement needs and goals, you'll want to protect those savings and reduce the risk of loss due to sudden market corrections and volatility. The goal is to reduce investment risk and preserve savings. A reduction in savings due to a market downturn could require you to sacrifice important retirement goals and reduce retirement income.

Prior to retirement, you have more time to recover from market losses. However, once retired, your time frame for recovery is much shorter. For example, if you had retirement savings of \$500,000 and lost 25% due to market volatility, your savings would be reduced to \$375,000. You would have to earn a rate of return of more than 33% in order to get back to \$500,000. That could take plenty of time to achieve.

Maintain a Sustainable and Predictable Income

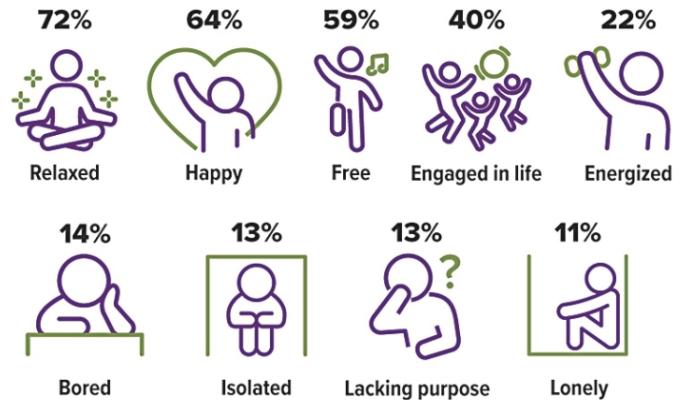
During our working years, most of us are used to receiving a steady income. However, once we retire, the income we got from work is no longer there, even though that's what we've been accustomed to. So it's important to create a sustainable, dependable, income stream in retirement to replace the income we received during our working years. While you may receive Social Security retirement benefits, it's unlikely

that you can maintain your desired lifestyle in retirement on just Social Security. In addition, defined-benefit pension plans are not as prevalent or available as they once may have been. Most employers don't offer pension plans, placing the burden on us to find our own sources of retirement income.

Maintaining a sustainable income in retirement is important for many reasons. You'll want sufficient income to meet your retirement expenses. It is also important that your income is not negatively impacted by downturns in the market. And you'll want your income to last as long as you do.

A Few Words About Retirement

In a recent survey, retirees ages 40 to 74 were asked to choose from a list of words and short phrases to describe their feelings about retirement. The good news is that most had positive feelings.



Source: AARP, 2022 (multiple responses allowed)

Reduce the Impact of Taxes on Retirement Income

Taxes can cut into your retirement income if you don't plan properly. Many of us think our tax rate will be lower in retirement compared to our working years, but that is often not the case. For instance, we may no longer have all of the tax deductions in retirement that we had while working. In addition, taxes may increase in the future, potentially taking a bigger chunk out of your retirement income. So it's important to create a tax-efficient retirement.

Your retirement plan should be suited to your particular situation. However, these four objectives are often part of a sound retirement plan. A financial professional may be able to help you to earn a reasonable rate of return, manage risk of loss, create and maintain predictable retirement income, and reduce the impact of taxes on that income. There is no guarantee that working with a financial professional will improve investment results.

REITs, Rates, and Income

Real estate investment trusts (REITs) can offer a consistent income stream that is typically higher than Treasury yields and other stock dividends (see chart).

A qualified REIT must pay at least 90% of its taxable income each year as shareholder dividends, and unlike many companies, REITs generally do not retain earnings, which is why they provide higher dividend yields than most other stock investments. You can buy shares in individual REITs, just as you might buy shares in any publicly traded company, or you can invest through mutual funds and exchange-traded funds (ETFs).

Share Price Volatility

While REITs may offer solid dividends, share prices tend to be volatile and are especially sensitive to rising interest rates. The most common type of REIT is an equity REIT, which uses capital from a large number of investors to buy and manage residential, commercial, and industrial income properties. These REITs derive most of their income from rents and may be directly affected by rising rates, because companies often depend on debt to acquire rent-producing properties — and higher rates can push real estate values downward. Also, as interest rates rise, REIT dividends may appear less appealing to investors relative to the stability of bonds offering similar yields.

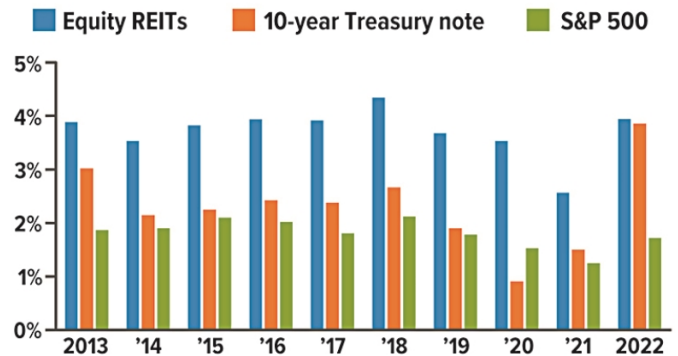
Considering these factors, it's not surprising that equity REIT shares struggled in 2022 — declining 25% in total returns — as the Federal Reserve raised rates to combat inflation. However, REITs soared in 2021, returning 41%, and may be poised for better performance in 2023 and beyond, as interest rates settle. In Q1 2023, REIT fundamentals such as funds from operation and net operating income were solid, and occupancy rates for industrial and retail properties surpassed pre-pandemic levels. (Apartment occupancy was down slightly, and office occupancy was still about 5% lower than before the pandemic.)¹

Diversification and Asset Allocation

Along with providing income, REITs can be a helpful tool to increase diversification and broaden asset allocation, because REIT shares do not always follow the movements of stocks or bonds. Over the 10-year period ending in 2022, equity REITs had a correlation of 72% with the S&P 500 and 50% with the corporate and government bond market. The correlation was even lower over 30 years.² As this suggests, REITs are in some respects a unique asset class. Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

Consistent Yields

Over the last decade, equity REITs maintained dividend yields that were higher than yields on the 10-year Treasury note and dividend yields on stocks in the S&P 500.



Sources: National Association of Real Estate Investment Trusts, 2023 (Equity REITs); Federal Reserve, 2023 (10-year Treasury note); S&P Dow Jones Indices (S&P 500). The S&P 500 Index is an unmanaged group of securities considered representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific security. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid.

Real Estate Risks

There are inherent risks associated with real estate investments and the real estate industry that could adversely affect the financial performance and value of a real estate investment. Some of these risks include a deterioration in national, regional, and local economies; tenant defaults; local real estate conditions, such as an oversupply of, or a reduction in demand for, rental space; property mismanagement; changes in operating costs and expenses, including increasing insurance costs, energy prices, real estate taxes, and the costs of compliance with laws, regulations, and government policies.

The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1–2) National Association of Real Estate Investment Trusts, 2023

Clean Vehicle Tax Credits: New vs. Qualified Commercial

Federal tax credits may be available to help offset your cost to purchase certain clean vehicles (including electric, plug-in hybrid, and fuel cell vehicles).

The new clean vehicle tax credit can be either a personal or a general business tax credit, depending on whether the vehicle is used in a trade or business. If the vehicle is used 50% or more for business, the credit is treated as a general business tax credit; otherwise, the credit is allocated between personal and business use. The qualified commercial clean vehicles tax credit is a general business tax credit. Both credits are nonrefundable if they exceed your tax liability. An unused general business tax credit can be carried forward to a later year.

New Clean Vehicle Tax Credit

A personal or a general business tax credit of up to \$7,500 is available for the purchase of a new clean vehicle meeting certain requirements (including weighing less than 14,000 pounds).

A credit of \$3,750 is available if a critical minerals requirement is met, and a credit of \$3,750 is available if a battery components requirement is met. Fuel cell vehicles that have final assembly within North America can qualify for the \$7,500 credit without regard to these two requirements. The credit is not available for vehicles with a manufacturer's suggested retail price higher than \$80,000 for vans, sports utility vehicles, and pickups, or \$55,000 for other vehicles. You can

check the eligibility of vehicles for the credit at [fueleconomy.gov](https://www.fueleconomy.gov).

The credit is generally not available if the purchaser's modified adjusted gross income for the taxable year or the preceding taxable year (whichever is less) exceeds \$150,000 (\$300,000 for joint filers and surviving spouses, \$225,000 for heads of households). The income limitation does not apply to corporations subject to the corporate income tax. In the case of a partnership or S corporation, the credit is allocated to the partners or shareholders, respectively, and the income limitation is applied to those individuals.

Qualified Commercial Clean Vehicles Tax Credit

A general business tax credit of up to \$7,500 (\$40,000 if the vehicle weighs 14,000 or more pounds) is available for the purchase of a qualified commercial clean vehicle meeting certain requirements.

The credit is equal to the lesser of (a) 15% of the tax basis (generally, the purchase price) of the vehicle (30% if the vehicle is not powered by a gasoline or diesel internal combustion engine), or (b) the incremental cost of the vehicle (the excess of the purchase price of the clean vehicle over the price of a comparable vehicle that is powered solely by a gasoline or diesel internal combustion engine).

IMPORTANT DISCLOSURES

This publication is not intended to provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

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