AWM Financial Planning

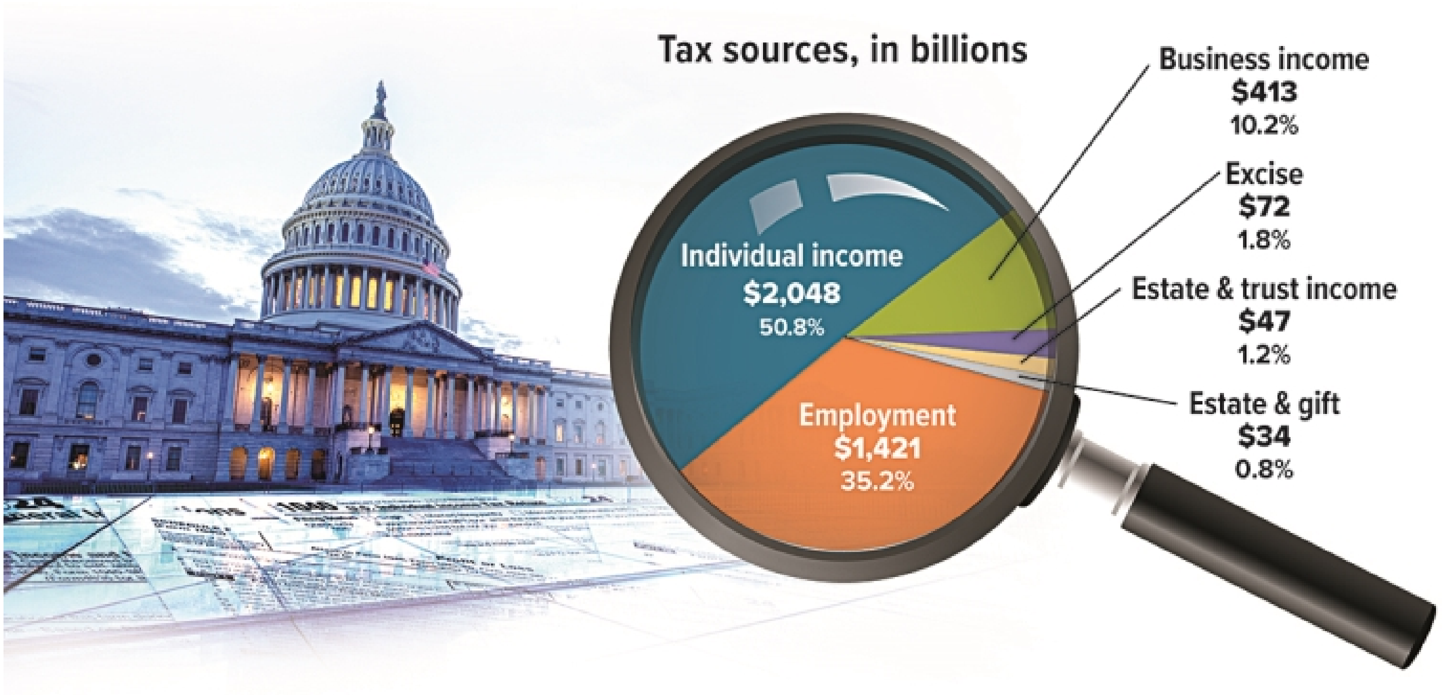
Differences between a fiduciary and a broker

Steve Giacobbe, CFA, CFP®
Accredited Wealth Management
4938 Brownsboro Road, Ste. 201 • Louisville • KY • 40222
502-290-1905
sgiacobbe@accreditedwm.com • www.accreditedwm.com

Are you confident your financial advisor is putting your interests first? Many investors struggle with this uncertainty. The crucial difference lies in whether your advisor is a fiduciary or a broker. Fiduciaries are legally bound to act in your best interest, with full transparency on fees and conflicts. Brokers, however, follow a "suitability" standard, which can leave room for them to prioritize their own commissions. Don't leave your retirement to chance. We offer a complimentary consultation to help you determine whether your current advisor is required to work in your best interest or not.

Funding the Federal Government

The IRS collected a little more than $4 trillion in net taxes (after refunds) in fiscal year 2023. About half was individual income taxes, and around 35% was employment (payroll) taxes, including Social Security, Medicare, unemployment insurance, and railroad retirement. Business income taxes made up a little over 10% of the total, with relatively small contributions from excise, estate and trust income, and estate and gift taxes.



Source: Internal Revenue Service, April 2024

Are You Missing the Bull's-Eye with a Target-Date Fund?

Two out of three 401(k) participants have assets in a target-date fund — an "all-in-one" fund intended in theory to be the holder's only investment (see chart). These funds are often the default option in workplace plans, so you may have a target-date fund without fully understanding what it is, or perhaps without even knowing you own it.

In fact, target-date funds are not as simple as they appear to be. Like all investment options, they have strengths and weaknesses.

Focused on time

Target-date funds offer a professionally managed mix of assets — typically a combination of other funds containing stocks, bonds, and cash alternatives — selected for a specific time horizon.

The target date, usually included in the fund's name, is the approximate date when an investor would begin to withdraw money for retirement (or another purpose, such as paying for college). An investor expecting to retire in 2055, for example, might choose a 2055 fund. As the target date approaches, the fund typically shifts toward a more conservative asset allocation to help preserve the value it may have accumulated and potentially provide income.

One size may not fit all

Target-date funds utilize basic asset allocation principles that are often used to construct more complex portfolios. But the allocation is based solely on the target date and does not take into account the investor's risk tolerance, personal goals, asset levels, sources of income, or any other factors that make an investor unique.

An investor with $200,000 in a target-date fund has the same asset allocation as an investor with $20,000 in the fund. An investor who also has a pension and might be comfortable taking more risk with 401(k) investments is placed in the same risk category as an investor who will depend primarily on savings in the 401(k) account.

Considering this one-size-fits-all approach, target-date funds may be especially appealing to novice investors with relatively low assets or to those who prefer a simple set-and-forget option in their 401(k), IRA, or other investment account. But even if simplicity is the goal, it's important for any investor who keeps assets in a target-date fund to learn more about the specific fund and how it operates.

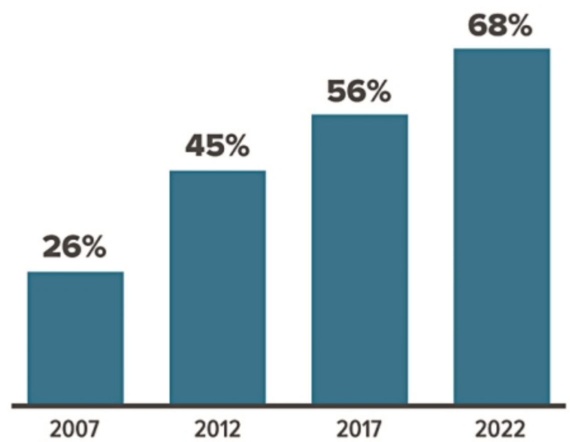
Glide to or beyond retirement

The transition from more aggressive to more conservative investment allocations is driven by a formula called the glide path, which determines how the asset mix will change over time. The glide path may end at the target date or continue to shift assets beyond the target date, taking the fund into your retirement years.

Funds with the same target date may vary not only in their glide path but also in the underlying asset allocation, investment holdings, turnover rate, fees, and fund performance. Be sure you understand the asset mix of your fund and how it changes over time. It's especially important to closely examine your target-date fund as you approach retirement. You can find detailed information in the prospectus.

Growing Trend

Percentage of 401(k) participants holding target-date funds



Source: Investment Company Institute, 2024 (2022 year-end data, most recent available)

Asset allocation is a widely accepted method to help manage investment risk. It does not guarantee a profit or protect against investment loss, and there is no guarantee that you will be prepared for retirement on the target date or that the fund will meet its stated goals. Keep in mind that investing in other securities outside of a target-date fund may change your overall asset allocation. It's generally wise to consider the allocation strategy of your full portfolio.

The principal value of a target-date fund is not guaranteed before, on, or after the target date. The return and principal value of all mutual funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

Mutual funds 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.

The Versatile Roth IRA

Used with care, the Roth IRA may help serve several objectives at once — like a multipurpose tool in your financial-planning toolbox.

Retirement

First and foremost, a Roth IRA is designed to provide tax-free income in retirement. If your modified adjusted gross income (MAGI) falls within certain limits, you can contribute up to $7,000 ($8,000 for those age 50 or older) in earned income to a Roth IRA in 2024 and 2025. Although Roth IRA contributions are not tax-deductible, qualified withdrawals are tax-free. A qualified withdrawal is one made after the account has been held for at least five years and the account owner reaches age 59½, becomes disabled, or dies. Nonqualified withdrawals of earnings are subject to ordinary income taxes and a 10% penalty, unless an exception applies.

2025 Income Limits for Roth Contributions

Filing status	Contribution limited if MAGI is:	No contribution allowed if MAGI is:
Single/Head of household	$150,000 to $164,999	$165,000 or more
Married filing jointly	$236,000 to $245,999	$246,000 or more
Married filing separately	$0 to $9,999	$10,000 or more

Source: IRS

Emergency savings

Because contributions to a Roth IRA are made on an after-tax basis, they can be withdrawn at any time — which means, in a money crunch, you could withdraw just your Roth contributions (not the earnings) free of taxes and penalties. In addition, account holders may withdraw up to $1,000 in earnings each year to cover emergency expenses.[1]

Teachable moments

A Roth IRA can also be an ideal way to introduce a working teen to long-term investing. Minors can contribute to a Roth IRA as long as they have earned income and a parent or other adult opens a custodial account in their name. Alternatively, an adult can contribute to a Roth IRA within a custodial account on a child's behalf, as long as the total amount doesn't exceed the child's total wages for the year.

College and first home

Roth IRA earnings can be withdrawn penalty-free to provide funds for college and the purchase of a first home.

College. Roth IRA funds can help pay for certain undergraduate and graduate costs for yourself or a qualified family member. Expenses include tuition, housing and food (if the student attends at least half time), fees, books, supplies, and required equipment not covered by other tax-free sources, such as scholarships or employer education benefits. An advantage of using a Roth IRA to help pay for college is that assets held in retirement accounts are excluded from the government's financial-aid formula. (A related point: up to $35,000 in 529 plan assets that are not used to pay for college may be rolled over to a Roth IRA for the same beneficiary, provided certain rules are followed.)

First home purchase. Up to $10,000 (lifetime limit) can be used for qualified expenses associated with a first-time home purchase. You are considered a first-time home buyer if you haven't owned or had interest in a home during the previous two years. Funds may be used for acquisition, construction, or reconstruction of a principal residence and must be used within 120 days of the distribution. If the account has been held for at least five years, the distribution will be income tax-free as well.

Estate planning

Roth IRAs are not subject to the age-based required minimum distribution rules that apply to non-Roth retirement accounts during your lifetime. For this reason, if you don't need your Roth IRA funds, they can continue to accumulate. After your death, the tax-free income benefit continues to apply to your beneficiaries (however, the value of your Roth IRA will be assessed for federal and possibly state estate tax purposes).

Proceed with caution

Although it's generally best to avoid tapping money earmarked for retirement early, the Roth IRA can help serve multiple needs — if used wisely.

The tax implications of a 529 savings plan should be discussed with your legal and/or tax professional because they can vary from state to state. Also be aware that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers. These other state benefits may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, can be obtained by contacting your financial professional. You should read these materials carefully before investing.

1) Due to ordering rules, Roth IRA contributions will always be distributed before earnings.

Concerned About Cyberattacks? The Threat Is Real

According to a 2024 survey, 60% of small businesses believe that cyberattacks are the biggest threat they currently face, and rightly so.[1]

When a data breach occurs, hackers gain access to the personally identifiable information of customers or other individuals, opening the door for identity theft and other financial crimes. Even small companies can be held legally responsible when their customers' personally identifiable information is disclosed. Moreover, the time and expense involved in recovering from any type of cyberattack could be insurmountable.

Does your company handle potentially sensitive information about customers, employees, or competitors? If so, you may want to be proactive about addressing this risk.

Methods of attack

Phishing often involves emails sent to employees. Clicking on a link provides access to the company's network, allowing the installation of malicious code (malware) designed to steal or hijack critical data.

A **watering hole attack** targets individuals or organizations by infecting websites that they frequently visit with malware.

Ransomware is a menacing virus that locks businesses out of their computer files and demands payment of a ransom in exchange for the return of company systems and data.

Fortify your defenses

The Federal Communications Commission has some cybersecurity tips for small businesses.

- Install and update antivirus software on every computer, and maintain firewalls between the internal network and the Internet. Lock up computers, laptops, and tablets to prevent them from falling into the wrong hands.
- If you have a Wi-Fi network, set it up so the network name is hidden and a secure password is required for access. Require passwords to be changed on a regular basis.
- Train employees in security practices, especially not to open emails from unknown senders. Set up a separate account for each user, and provide access only to the data needed for users to perform their jobs. Backup critical data regularly and delete data when it's no longer needed.
- Consider purchasing cyber insurance, which may offer some protection (up to policy limits) from the financial repercussions of a cyberattack, such as the cost of restoring lost or stolen data; liability stemming from a security failure; and in some cases, lost income due to business interruption.

The cost of cyber insurance depends on the types of coverage selected, and policies have exclusions, terms, and conditions for keeping them in force.

1) U.S. Chamber of Commerce, 2024