Top of Mind

Practicing Mindfulness With Money Can Help Boost Your Financial Wellness

Many people practice mindfulness through yoga, tai chi or other forms of movement, often incorporating breathing exercises. Others rely on their smart watch or phone to ping them at the same time each day, urging them to practice it for a few minutes. While there are many definitions of mindfulness, this one from mindful.org seems to capture it well:

*Mindfulness is the basic human ability to be fully present, aware of where we are and what we’re doing, and not overly reactive or overwhelmed by what’s going on around us.*

Practicing mindfulness with your money can be a valuable exercise, too. Here are four ways it can help you boost your financial wellness.

Pay Yourself First

Practicing mindfulness here is about determining a savings amount and considering it a bill, the same as any other bill, like electricity or rent. Whether it's building up an emergency account or saving for some other financial goal, put away what you can, such as $100 a month, $50 or even just $25. Small amounts add up, and can be incrementally increased over time. The good news here is that you're already practicing pay-yourself-first mindfulness with your 401(k)/403(b). Which leads us to...
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Increase Your Retirement Account Contribution

You should be looking at your retirement account at least once a year and seeing if you can improve how you’re saving for the future (hint: the start of a new year is a great time to do this). For example, how much are you contributing? Are you contributing enough to get the full employer match? Can you increase the amount you are contributing? The longer you put off increasing your retirement savings, the more you miss out on the mindfulness of compound interest. So don’t wait — even a $50 per month increase in retirement savings has the potential to grow to nearly $75,000 over 30 years, assuming an 8% annual rate of growth, compounded monthly.

Make a Game Out of Saving

A no-spend challenge is when you don’t spend money for a certain period of time. It could be a weekend, a week or a month. You can set rules to spend only on essentials or other allowances. Doing this forces you to be creative with what you have and learn new skills and possibly open up ideas for more ways to save. Visit https://tinyurl.com/yt6ci5rv for more information on taking on a no-spend challenge.

Leverage Technology Apps

One popular savings app is called Acorns* (a subscription-based app). You tie Acorns to your debit card, and it rounds the purchase up to the nearest dollar, effectively allowing you to invest your spare change. For example, if you buy something that costs $5.44, when you use your debit card, $6 will be taken out of your account, with $5.44 going to the store and $0.56 going into your investment account. What could be more money mindful than an app that allows you to save money as you make everyday purchases — without having to even think about it?

*Acorns is not affiliated with HUB International and this is not an endorsement.
Tapping Your Retirement Account for Other Financial Needs Can Have Costly Consequences

According to a December 13, 2022, article in The New York Times, hardship withdrawals from workplace retirement accounts are rising — “another sign, along with rising credit card debt, that many Americans have been feeling financial pain from inflation.”

At some point, most people find themselves in a situation where they need access to cash quickly. If that happens to you, you may think about taking money out of your retirement plan account through either a loan or distribution. While those are both possible options, you need to understand the impact of this action on your long-term goals.

### Hardship Withdrawals

Hardship withdrawals can be taken for “immediate and heavy” financial need, according to the Internal Revenue Service. But while a hardship withdrawal may solve a short-term issue, it may have a costly impact. Consider the following chart to see the financial implications before you remove funds from your account. If you’re under age 59½, you may get hit with both ordinary income taxes and an additional 10% federal income tax penalty.

<table>
<thead>
<tr>
<th>Amount of withdrawal:</th>
<th>$40,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary income taxes:</td>
<td>($9,600)</td>
</tr>
<tr>
<td>Early withdrawal penalty tax:</td>
<td>($4,000)</td>
</tr>
<tr>
<td><strong>Leaves you with just:</strong></td>
<td><strong>$26,400</strong></td>
</tr>
</tbody>
</table>

Assumes the account holder is under age 59½ (and no exception to the 10% additional tax applies) and has a 24% effective federal income tax rate. Additional state and local income taxes may be levied (if applicable).

### Plan Loans

When you take out a plan loan, there are no income tax or early-withdrawal penalty consequences. However, you generally have up to five years to repay any loan from your retirement plan account. Leaving your job (or losing it) before the loans are repaid may mean you have to pay the money back in full right away. If you don’t, the amount that still needs to be repaid may be considered a distribution and subject to federal and state income taxes (if applicable), as well as the additional 10% federal income tax penalty if you are under age 59½ (unless an exception applies).

### Missing Out on Potential Growth Opportunities

As much as you may need the money now, taking a distribution or borrowing from your retirement account undermines the potential for the funds to grow through tax-deferred compounding — on both the money you have invested as well as any growth of that money’s earnings. This could make it more difficult for you to reach your retirement goals.

If you’re thinking about taking a distribution or loan from your retirement plan account, consider consulting with a financial advisor (your plan’s advisor may be able to help).
The Planning Zone
INFORMATION AND TOOLS TO HELP YOU BUILD YOUR FINANCIAL FUTURE

In the Know
Although everyone has experienced a few tough years of higher inflation, it’s important to keep things in perspective. According to the Bureau of Labor, inflation has averaged just 2.41% from 2000 to 2023. Conventional wisdom says you should consider keeping an appropriate amount of your retirement savings allocated to stock and bond mutual funds to help offset inflation risk. Although past performance is no guarantee of future results, historical average stock and bond returns have stayed ahead of inflation over the long term.

To-Do List
Are you expecting a tax refund this year? If so, consider creating an emergency fund with some or all of it. It’s important to have this money available for when something unexpected comes up, such as a car, refrigerator or dishwasher breaking down. Here are the key features of an emergency fund:

• Aim to have 3-6 months of living expenses saved
• Keep separate from your checking account
• No (or low) transaction fees; no penalties for withdrawals
• Interest earnings on the balance (a little something is better than nothing)

Inquiring Minds
Q: Do I have to wait until retirement to open a Social Security account?
A: No matter what stage you are at in the retirement planning process, everyone should open a Social Security account as soon as possible. Creating an account gives you the control to check your annual Social Security statement for accuracy, change your address, verify your reported earnings, estimate your future benefits, and much more. You can visit ssa.gov to open your account. In fact, the Social Security Administration has recently unveiled a brand-new homepage and a new design to help users find what they need more easily.

Financial Fitness
You may feel a lot differently about the money you earn from your job versus money that was gifted to you through a will, trust or other circumstances. And you may have a different feeling toward the money you save through your retirement account — especially when the account is growing versus experiencing losses. You might say everyone has a “money personality” that affects how we think about and manage our money. Take a few minutes to answer a few questions in Fidelity’s money personality quiz to find out which type you are, how that affects your financial decisions, and some common pitfalls to avoid.