TWM Monthly Newsletter

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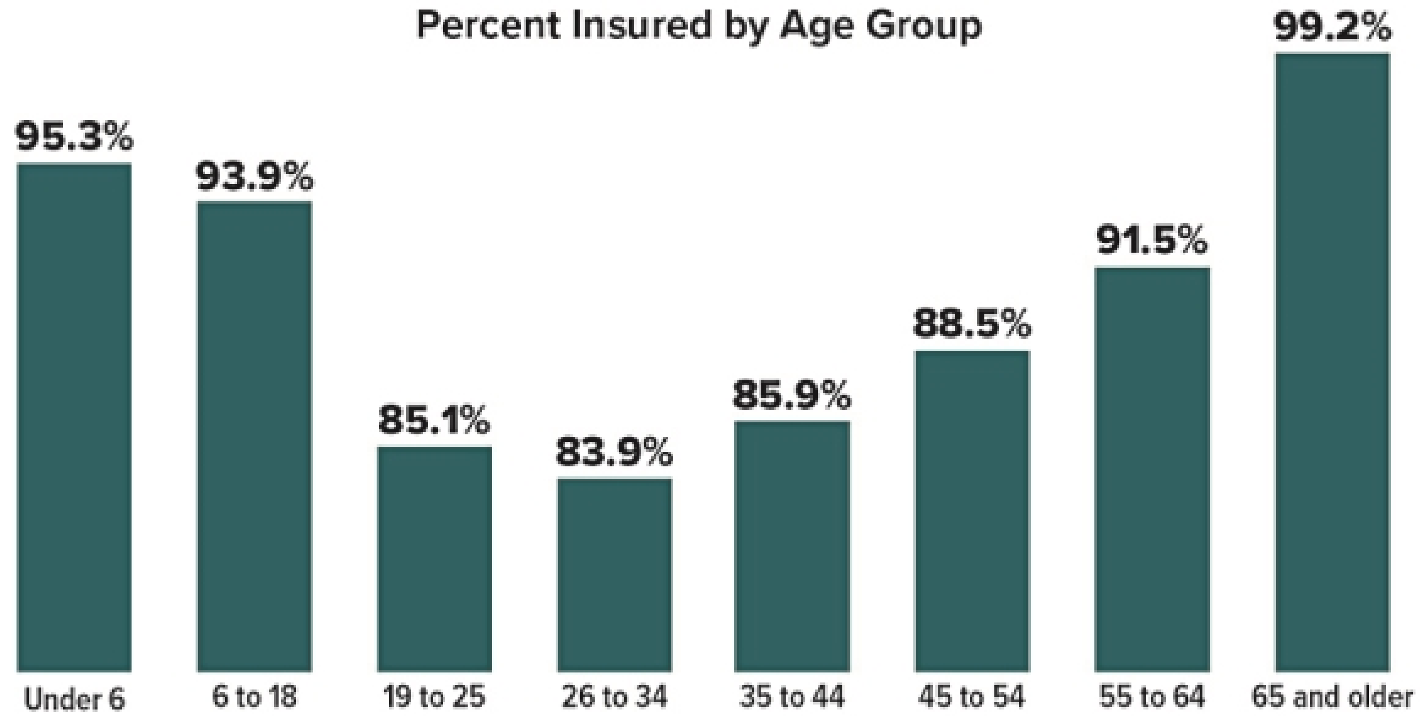
Young Adults Are More Likely to Lack Health Coverage

Children are often covered by a parent's health plan or by public health insurance such as the Children's Health Insurance Program (CHIP). But young adults generally lose eligibility for CHIP at age 19 and for coverage under a parent's health plan at age 26. Before they transition into employer-sponsored health plans or buy private health insurance, young adults are more likely to be uninsured than other age groups.



Source: American Community Survey, U.S. Census Bureau, 2020

Decisions, Decisions: Weighing the Pros and Cons of an IRA Rollover

If you lose a job, switch employers, or step into retirement, you might consider rolling your retirement plan savings into an IRA. But this isn't your only option; it could make more sense to keep the money in your previous employer's plan or move it to your new employer's plan (if allowed by the plan).

You could also cash out, but that's rarely a good idea. Withdrawals from tax-deferred retirement accounts are taxed as ordinary income, and you could be hit with a 10% tax penalty if you are younger than 59½, unless an exception applies.

Some employer plans permit in-service distributions, which allow employees to take a partial distribution from the plan and roll the money into an IRA. When deciding what to do with your retirement assets, be aware that IRAs are subject to different rules and restrictions than employer plans such as 401(k)s.

What IRAs Have to Offer

There are many reasons to consider an IRA rollover.

Investment choice. The universe of investment options in an IRA is typically much larger than the selection offered by most employer plans. An IRA can include individual securities and alternative investments as well.

Retirement income. Some employer plans may require you to take a lump-sum distribution when you reach the plan's retirement age, and your distribution options could be limited if you can leave your assets in the plan. With an IRA, it's likely that there will be more possibilities for generating income, and the timing and amount of distributions are generally your decision [until you must start taking required minimum distributions (RMDs) at age 72].

Top Reasons for Most Recent IRA Rollover

- **69%** Didn't want to leave assets with former employer
- **65%** Wanted to preserve tax treatment of savings
- **57%** Wanted to consolidate assets
- **55%** Wanted more investment options
- **44%** Was required to remove the money from former employer's plan

Source: Investment Company Institute, 2021 (more than one reason allowed per respondent)

Account consolidation. Consolidating your investments into a single IRA may provide a clearer picture of your portfolio's asset allocation. This could make it easier to adjust your holdings as needed and calculate RMDs.

Different exceptions. There are circumstances when IRA owners may be able to withdraw money penalty-free prior to age 59½, options that are not available to employer plan participants. First-time homebuyers (including those who haven't owned a home in the previous two years) may be able to withdraw up to $10,000 (lifetime limit) toward the purchase of a home. IRA funds can also be withdrawn to pay qualified higher-education expenses for yourself, a spouse, children, or grandchildren. IRA funds can even be used to pay for health insurance premiums if you are unemployed.

When to Think Twice

For some people, there may be advantages to leaving the money in an employer plan.

Specific investment options. Your employer's plan may offer investments that are not available in an IRA, and/or the costs for the investments offered in the plan may be lower than those offered in an IRA.

Stronger creditor protection. Most qualified employer plans receive virtually unlimited protection from creditors under federal law. Your creditors cannot attach your plan funds to satisfy any of your debts and obligations, regardless of whether you've declared bankruptcy. On the other hand, IRAs are generally protected under federal law (up to $1,362,800) only if you declare bankruptcy. Any additional protection will depend on your state's laws.

The opportunity to borrow from yourself. Many employer plans offer loan provisions, but you cannot borrow money from an IRA. The maximum amount that employer plan participants may borrow is 50% of their vested account balance or $50,000, whichever is less.

Penalty exception for separation from service. Distributions from your employer plan won't be subject to the 10% tax penalty if you retire during the year you reach age 55 or later (age 50 for qualified public safety employees). There is no such exception for IRAs.

Postponement of RMDs. If you work past age 72, are still participating in your employer plan, and are not a 5% owner, you can delay your first RMD from that plan until April 1 following the year in which you retire.

Corporate Debt: Are Juicier Yields Worth the Extra Risk?

In response to a pandemic-induced sell-off in March 2020, the Federal Reserve announced that it would purchase corporate bonds, including riskier junk bonds, as part of its effort to stabilize the financial markets. Fed bond buying, along with a pledge to keep interest rates near zero for as long as needed, helped to calm the nerves of investors and to keep money flowing into corporate debt. In fact, U.S. corporations issued more than $2.2 trillion in new debt in 2020, up from $1.4 trillion in 2019.[1]

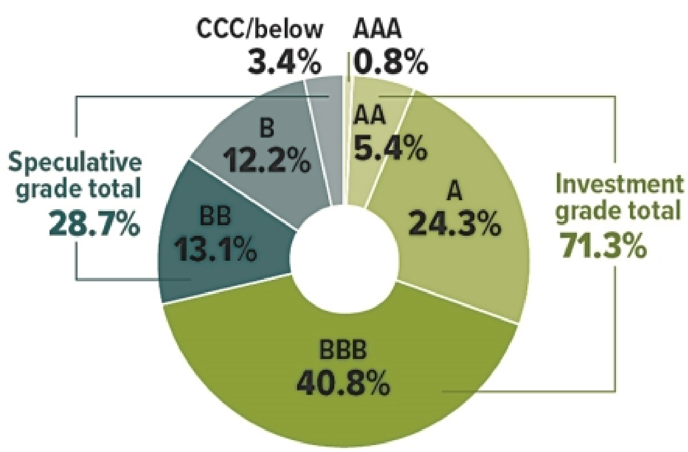
Corporations sell bonds to finance operating cash flow and capital investment. Corporate bonds usually offer higher interest rates — and are subject to more risk — than U.S. Treasury securities with comparable maturities. U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest, but distressed corporations occasionally default on payments.

Investors who rely on corporate bonds for retirement income, or to help temper the effects of stock market volatility, should consider the degree of risk they are willing to accept in their bond portfolios.

Credit Risk and Ratings

Most corporate bonds are evaluated for credit quality by one or more ratings agencies, each of which assigns a rating based on its assessment of the issuer's ability to pay the interest and principal as scheduled. Bonds rated BBB or higher by Standard & Poor's and Fitch Ratings, and Baa or higher by Moody's Investors Service, are considered investment grade. Lower-rated corporate bonds (called high-yield or "junk" bonds) are considered non-investment grade or speculative, because they are issued by companies considered to pose a greater risk of default. Bond investors generally receive higher yields as compensation for bearing higher risk.

U.S. corporate debt, by rating category (share of total)



Source: S&P Global Ratings, November 2020

Many factors can alter a company's perceived credit risk, including shifts in economic or market conditions, adjustments to taxes or regulations, and changes in management or projected earnings. When a ratings agency upgrades or downgrades a company's credit rating, or even adjusts the outlook, it often causes the prices of outstanding bonds to fluctuate.

An Uneven Outlook

Thanks to the Fed, many companies have been able to borrow at very low rates and with favorable terms, putting them in better shape to ride out the pandemic and repay their debt over time. On the other hand, some companies in sectors that were harshly impacted by social distancing measures and lockdowns — or that were in a weak financial position before the health crisis began — are more vulnerable to credit pressures.

According to a forecast by S&P Global Fixed Income Research, the trailing 12-month default rate for U.S. speculative-grade corporate debt will rise to 9% by September 2021, up from 6.3% in September 2020. However, the risk of default is greater in hard-hit corporate sectors such as retail, restaurants, travel-related sectors, and oil and gas.[2]

Downgraded bonds that lose their investment-grade ratings are known as fallen angels. There was a spike in fallen angel debt in 2020, and the number of potential fallen angels (rated BBB- with a negative outlook) is projected to decline in 2021 but remain elevated.[3]

Thirsting for Yield

After accounting for inflation, the real yields on many U.S. Treasuries have dropped below zero, while the real yields for many investment-grade corporates are barely positive. As a result, some fixed-income investors may be motivated to invest in riskier high-yield corporate bonds.[4]

Investors who stretch for yield should have the discipline to tolerate the price swings typically associated with lower-quality bonds. And considering the potential for lingering economic uncertainty, investors might want to take a selective approach when evaluating corporate bond investments.

The principal value of bonds may fluctuate with changes in interest rates and market conditions. Bonds redeemed prior to maturity may be worth more or less than their original cost.

1) Securities Industry and Financial Markets Association, 2021

2-3) S&P Global Ratings, December 2020

4) *The Wall Street Journal,* November 17, 2020

A Steady Strategy

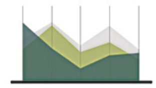
One of the most fundamental truths of investing is that you can't time the market. As legendary investor and economist Bernard Baruch put it, "Don't try to buy at the bottom and sell at the top. It can't be done except by liars."[1]

Even so, it's natural to wince a little when you buy an investment only to see the price drop, or sell only to see the price rise. And no matter how much you try to make objective decisions, you may be tempted to guess at market movements. One approach that might help alleviate some of your concerns is *dollar-cost averaging.*

Regular Investments

Dollar-cost averaging involves investing a fixed amount on a regular basis, regardless of share prices and market conditions. Theoretically, when the share price falls, you would purchase more shares for the same fixed investment. This may provide a greater opportunity to benefit when share prices rise and could result in a lower average cost per share over time.

If you are investing in a workplace retirement plan through regular payroll deductions, you are already practicing dollar-cost averaging. If you want to follow this strategy outside of the workplace, you may be able to set up automatic contributions to an IRA or another investment account. Or you could make manual investments on a regular basis, perhaps choosing a specific day of the month.



No matter how much you try to make objective decisions, you may be tempted to guess at market movements.

You might also use a similar approach when shifting funds between investments. For example, let's say you want to shift a certain percentage of your stock investments to more conservative fixed-income investments as you approach retirement. You could execute this in a series of regular transactions over a period of months or years, regardless of market movements.

Dollar-cost averaging does not ensure a profit or prevent a loss, and it involves continuous investments in securities regardless of fluctuating prices. You should consider your financial ability to continue making purchases during periods of low and high price levels. However, this can be an effective way to accumulate shares to help meet long-term goals.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. All investments are subject to market fluctuation, risk, and loss of principal. When sold, they may be worth more or less than their original cost.

1) BrainyQuote, 2021