Morrison Education Series

Fall Already?

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$111,839

Average account balance for active 401(k) plan participants and vested former employees

Source: Plan Sponsor Council of America, 2020 (2019 plan data)

401(k) Plan Participation Trends

Contributing to a 401(k) or similar work-sponsored retirement plan is one of the easiest ways to invest for your future. Plan contributions are automatically deducted from your pay and invested in a tax-advantaged account before you receive your paycheck, which helps avoid the temptation to spend it.

Nearly 9 out of 10 employees who are eligible to participate in a 401(k) plan choose to do so, and they contribute 6.7% of their earnings, on average. Here's a look at where those contribution dollars go.

Source: Plan Sponsor Council of America, 2020 (2019 plan data)

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Four Reasons to Review Your Life Insurance Needs

You may have purchased life insurance years ago and never gave it a second thought. Or perhaps you don't have life insurance at all and now you need it. When your life circumstances change, you have a fresh opportunity to make sure the people you love are protected.

Marriage

When you were single, life insurance might have seemed like an unnecessary expense, but now someone else is depending on your income. If something happens to you, your spouse will likely need to rely on life insurance benefits to meet expenses and pay off debts.

The amount of life insurance coverage you need depends on your income, your debts and assets, your financial goals, and other personal factors. Even if you have some low-cost life insurance through work, this might not be enough. Buying life insurance coverage through a private insurer could help fill the gap.

Parenthood

When children arrive, revisiting your life insurance needs could help you protect your growing family's financial security. Life insurance proceeds might help your family meet both their current obligations, such as a mortgage, child care, or car payments, and future expenses, including a child's college education. Even if you already have life insurance, children are among the most important reasons to review your policy limits and beneficiary designations.

Retirement

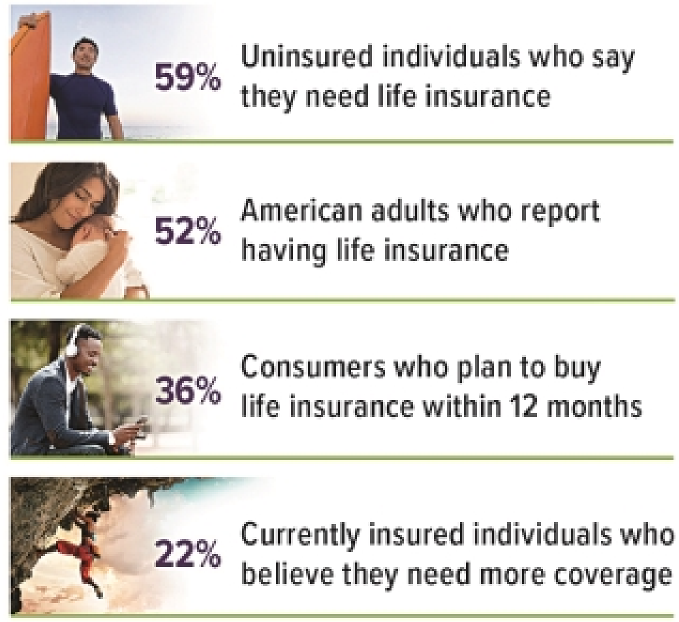
As you prepare to leave the workforce, reevaluate your need for life insurance. You might think that you can do without it if you've paid off all of your debts and feel financially secure. But if you're like some retirees, your financial picture may not be so rosy, especially if you're still saddled with mortgage payments, student loan bills, and other obligations. Life insurance protection could still be important if you haven't accumulated sufficient assets to provide for your family, or you want to replace retirement income lost when you are no longer around.

Life insurance can also be an important tool to help you transfer wealth to the next generation. Or perhaps you're looking for a way to pay your estate tax bill or leave something to charity. You may need to keep some of your life insurance in force or buy a different type of coverage.

Health Changes

A common concern is that life insurance coverage will end if your insurer finds out that your health has declined. But if you've been paying your premiums, changes to your health will not matter.

Consumers Understand the Value of Life Insurance



Source: 2021 Insurance Barometer Study, Life Happens and LIMRA

Some life insurance policies even offer accelerated (living) benefits that you can access in the event of a serious or long-term illness.

You may be able to buy additional life insurance if you need it, especially if you purchase group insurance through your employer during an open enrollment period. Purchasing an individual policy might be more difficult and more expensive, but check with your insurance representative to explore your options.

Of course, it's also possible that your health has improved. For example, perhaps you've stopped smoking or lost a significant amount of weight. If so, you may now qualify for a lower premium.

The cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that you are insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have mortality and expense charges. Any guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company. Optional benefits are available for an additional cost and are subject to contractual terms, conditions, and limitations.

Company Stock and Your Retirement Strategy

The opportunity to acquire company stock — inside or outside a workplace retirement plan — can be a lucrative employee benefit. Your compensation may include stock options or bonuses paid in company stock. Shares may be offered at a discount through an employee stock purchase plan and held in a taxable account, or company stock might be one of the investment options in your tax-deferred 401(k) plan.

Either way, having too much of your retirement savings or net worth invested in your employer's stock could become a problem if the company or sector hits hard times, especially if a job loss and stock value loss occur at the same time. There are also tax implications to consider.

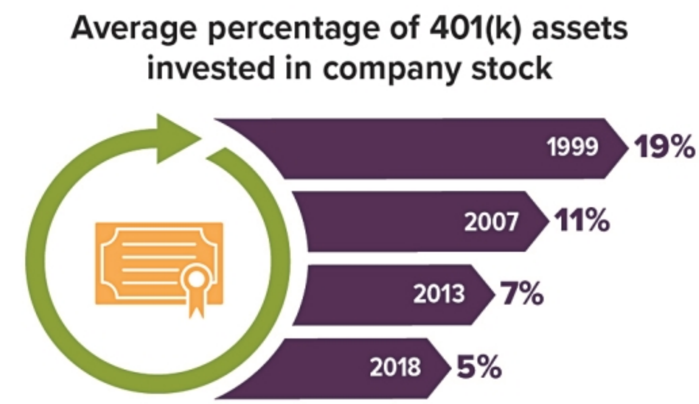
Concentrate on Diversification

The possibility of heavy losses from having a large portion of your portfolio holdings in one investment, asset class, or market segment is known as *concentration risk.* Buying shares of any individual stock carries risks specific to that company or industry, so a shift in market forces, regulation, technology, competition, scandals, and other unexpected events could damage the value of the business.

Holding more than 10% to 15% of your assets in company stock could upend your retirement strategy if the stock suddenly declines in value, and overconcentration can sneak up on you as your position builds slowly over time. To help maintain a healthy level of diversification in your portfolio, look closely at your plan's investment options and consider directing some of your contributions into funds that provide exposure to a wider variety of market sectors.

You might also consider strategies that involve selling company shares systematically or right after they become vested. But make sure you are aware of the rules, restrictions, and time frames for liquidating company stock, as well as any tax consequences.

Company Stock Ownership Has Fallen



Source: Employee Benefit Research Institute, 2021 (data from participants in the 2018 EBRI/ICI 401(k) database)

Take Advantage of NUA

If you sell stock inside your 401(k) account and reinvest in other plan options, or you roll the stock over to an IRA, future distributions will likely be taxed as ordinary income. However, if you own highly appreciated company stock in your employer plan, you might benefit from a special tax break on lump-sum distributions of net unrealized appreciation (NUA). NUA allows the appreciation on company stock in a 401(k) to be taxed at lower long-term capital gains rates when the shares are sold, instead of the ordinary income tax rates that would otherwise apply to retirement plan distributions.

To qualify for NUA, the lump-sum distribution must follow a triggering event such as separation from service, reaching age 59½, disability, or death. The stock must be distributed in kind — as stock — and transferred to a taxable account. You would owe income tax at the ordinary rate in the year of the distribution, but only on the cost basis of the stock.

If your retirement plan consists of employer stock and other types of investments (cash, mutual funds, etc.), the other assets can be transferred into an IRA, to another employer's plan, or withdrawn entirely. This doesn't have to happen simultaneously with the stock distribution, but the distributions must occur in the same tax year, and the account balance on your employer plan must be zero by the end of that year.

If distributions of company stock are handled correctly, the savings from NUA can be substantial, especially for those in higher tax brackets. But keep in mind that taking any partial distribution from your employer plan after a triggering event — even an in-plan Roth conversion or required minimum distribution — could disqualify you from the NUA tax break, unless another triggering event occurs.

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

Bankruptcy Changes Throw a Lifeline to Sinking Small Businesses

The Small Business Reorganization Act of 2019 (SBRA) added a new Subchapter V to Chapter 11 of the Bankruptcy Code, which was intended to "streamline the process by which small business debtors reorganize and rehabilitate their financial affairs." Prior to the SBRA, using a Chapter 11 bankruptcy to restructure took a long time and was often cost-prohibitive for small businesses, forcing many to liquidate instead.

Just weeks after the SBRA took effect in February 2020, Subchapter V eligibility was temporarily expanded by the Coronavirus Aid, Relief, and Economic Security (CARES) Act in a bid to help more businesses survive the pandemic. The debt limit to qualify as a small-business debtor was increased from $2,725,625 to $7,500,000 through March 27, 2021. At the last minute, Congress extended the higher debt limit once again through March 27, 2022.

Fewer Hurdles and Lower Costs

As always, filing for bankruptcy protection under Chapter 11 halts creditor collections and buys time for owners to renegotiate the terms of their debt, leases, and other contractual obligations. Subchapter V loosens many of the requirements that make the traditional process difficult and expensive for small businesses to navigate.

Debtors who elect to proceed under Subchapter V must file a Chapter 11 plan (consensual or nonconsensual) within 90 days of filing, reducing the amount of time spent in bankruptcy. Debtors don't have to pay U.S. Trustee fees or file disclosure statements, creditors are not allowed to file competing plans, and certain committees have been eliminated — all of which helps to reduce the overall cost.

Forging a New Path

The Chapter 11 plan must include a brief history of the debtor's business operations, a liquidation analysis, and projections that demonstrate the debtor's ability to make plan payments. The debtor is required to contribute all net operating income (after expenses such as rent, payroll, and goods) to pay creditors for the next three to five years.

A specialized trustee is appointed to monitor the case and facilitate the confirmation of a viable reorganization plan — not to control the debtor's assets or operations. While the emphasis is on the development of a consensual plan, the court can confirm a nonconsensual plan that it views as "fair and equitable" even if creditors don't like it, and the owners can keep their equity and continue running the business. Still, creditors must be paid at least as much as they would in a Chapter 7 liquidation.

Bankruptcy may offer a fresh start, but there are many potential financial and legal consequences to consider. Be sure to consult a qualified legal professional.
