

Building Capital

FinArc Investments Newsletter

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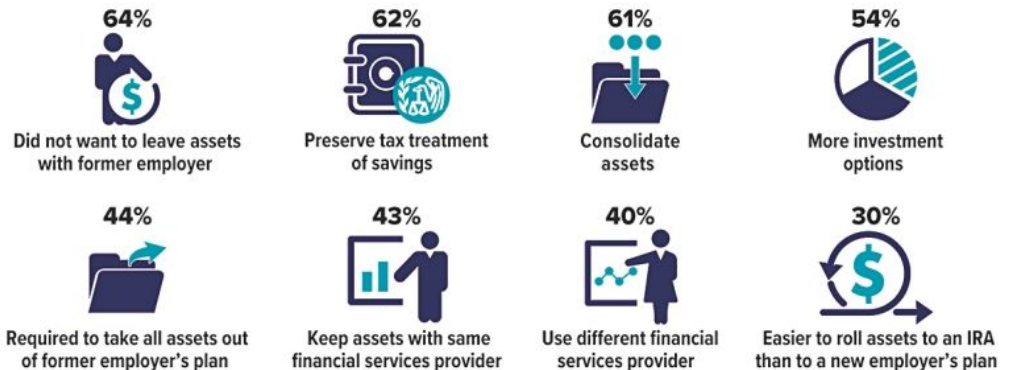
Have you changed jobs recently? Our first article offers some reasons to consider rolling over your old 401k assets. FinArc's expertise in ESG investing allows you to put your money where your values are. You can explore this idea more in our second article. Small business owners should read articles three and four to get the most out of business ownership.

As a reminder, FinArc specializes in serving women investors, sustainable investors and entrepreneurs. If you believe that FinArc could fit well with someone you care about, don't keep us a secret.

Reasons to Roll

When you leave your job or retire, you have an opportunity to manage your funds in an employer-sponsored retirement plan such as a 401(k), 403(b), or government 457(b) plan. Depending on the situation, you generally have four options.* The approach that typically gives you the most control over the funds is to transfer some or all of the assets to an IRA through a rollover.

Three out of five households who owned traditional IRAs in 2022 had executed at least one IRA rollover from an employer-sponsored retirement plan. These were the top reasons for the most recent rollover.



*Other options may include leaving assets in the former employer's plan, transferring assets to a new employer-sponsored plan, or withdrawing the money.

Source: Investment Company Institute, 2023 (multiple responses allowed)

Put Your Money Where Your Values Are

Financial worries are often cited as a major source of stress. For example, a 2021 study found that even before the pandemic and subsequent economic downturn, a majority of Americans said they felt stressed or anxious about their finances.¹ Similarly, in 2022, research revealed that more than seven out of 10 financial planning clients experienced financial anxiety more than half the time.²

What causes financial stress? Lack of assets and/or income is certainly one reason. Another might be the flood of financial information Americans can access on a daily basis: reports about the markets, economy, and financial institutions, as well as conflicting advice about what people should and should not do with their money. One way to avoid becoming distracted and anxious amid scary headlines is by having a sturdy framework to help guide your spending, saving, and investment decisions.

The Why of It

In one of the most viewed TED Talks of all time, motivational speaker Simon Sinek identified what he calls "The Golden Circle," which is actually a series of three concentric circles. He labels the extreme outside circle "What," the middle circle "How," and the core "Why." He uses this image to illustrate how the most successful leaders and organizations are able to inspire so many people to support their causes or buy their products. Essentially, it's not what they do or how they do it; it's why they do it.

"By 'why' I don't mean to make a profit," Sinek explains. "That's a result ... By 'why,' I mean: What's your purpose? What's your cause? What's your belief? Why does your organization exist? Why do you get out of bed in the morning?"³

Certified financial planner, author, and creator of *The New York Times*' "The Sketch Guy" column, Carl Richards, says Sinek's principle can also apply to an individual's or family's financial plan. Having a clear vision of *why* you earn a paycheck, save, invest, and spend your money is critical to avoiding distractions and questionable or rash financial decisions.⁴

Taking Stock of What Matters

The key to identifying your *why* is taking inventory of your most important values, many of which may have little or nothing to do with money. To do this, set aside some time when you're feeling at ease and simply jot down what matters most to you. Some examples might include family, achievement, security, faith, knowledge, creativity, generosity, and independence. Try to narrow down your list to 10 or fewer.

Next, think about how your values relate to your financial situation. For example, if faith and generosity are high on your list, how might they influence your estate plan? Or if independence, creativity, and

achievement make the final cut, how might those values affect your career choices? Perhaps family and knowledge are important — what might that indicate about your dreams for your children, from primary school to college and beyond?

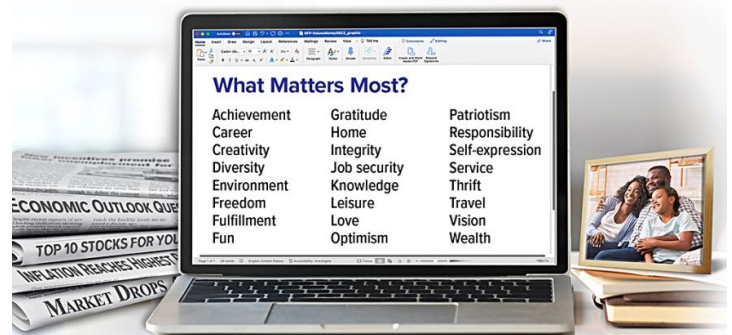
Working with your financial professional, you can use this list of core values as a framework for your financial goals, strategies, and tactics. Whenever you're tempted to make a decision that could derail your overall strategy — such as chasing the latest hot investment tip or taking a loan from your 401(k) plan — your core values can serve as an important guidepost and prevent you from making a costly mistake.

Your list can also help you make spending decisions. For example, if adventure and education are among your key values, taking your family on a trip to explore a new culture can bring intangible returns in the form of a lifetime of tolerance for differences as well as happy memories.

Adapting as Your Life Changes

A values-oriented financial plan is as personal and unique as each individual or family. It's also flexible. As you progress through various stages of life, your hopes, desires, needs, and beliefs may change as well. Your financial professional can help you ensure your financial goals and strategies continue to reflect what matters most to you.

There is no guarantee that working with a financial professional will improve investment results.



This is just a selection from the "List of Values" by researcher and motivational speaker Brené Brown. For the full list, visit brenebrown.com/.

1) FINRA Investor Education Foundation and Global Financial Literacy Excellence Center, 2021

2) Financial Planning Association, 2022

3) TED. (2009, September). *How great leaders inspire action* /Simon Sinek [Video]. YouTube. <https://www.ted.com/talks/>

4) Morningstar's The Long View podcast, "Carl Richards: It Should Be Ok to Relax Out Loud," July 27, 2021 <https://www.morningstar.com/podcasts/the-long-view>

SECURE 2.0: Big Impacts for Small Businesses

An AARP study released in July 2022 found that nearly half of all private sector employees ages 18 to 64 had no access to a retirement plan at work. It also found that small businesses are more likely to lack a work-based plan, putting their workers at a significant disadvantage when it comes to retirement preparations (see chart).

Last December, Congress passed a \$1.7 trillion omnibus package that included the SECURE 2.0 Act of 2022, a sweeping set of provisions designed to improve the nation's retirement-planning health. Here is a brief look at some of the tax perks, rule changes, and incentives included in the legislation to help small businesses and their employees.¹

Tax Perks for Employers in 2023

Perhaps most appealing to small business owners, the Act enhances the tax credits associated with adopting new retirement plans, beginning in 2023.

For employers with 50 employees or less, the pension plan start-up tax credit increases from 50% of qualified start-up costs to 100%. Employers with 51 to 100 employees will still be eligible for the 50% credit. In either case, the credit maximum is \$5,000 per year (based on the number of employees) for the first three years the plan is in effect.

In addition, the Act offers a tax credit for employer contributions to employee accounts for the first five tax years of the plan's existence. The amount of the credit is a maximum of \$1,000 per participant, and for each year, a specific percentage applies. In years one and two, employers receive 100% of the credit; in year three, 75%; in year four, 50%; and in year five, 25%. The amount of the credit is reduced for employers with 51 to 100 employees. No credit is allowed for employers with more than 100 workers.

Rule Changes and Relevant Years

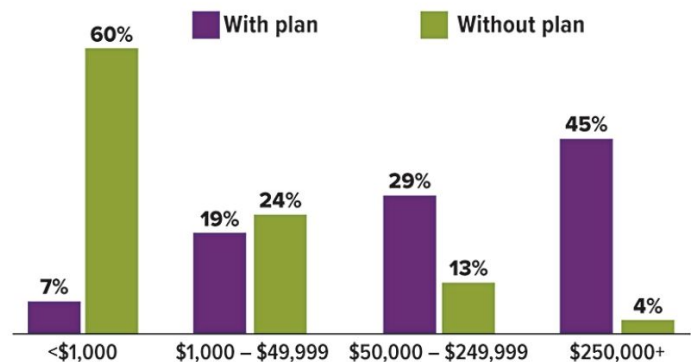
In 2024, employers will be able to adopt a starter 401(k) or similar 403(b) plan, an auto-enrollment plan for employee contributions only. The plan may accept up to \$6,000 per participant annually (\$7,000 for those 50 and older), indexed for inflation. Designed to be lower cost and easier to administer than traditional plans, these programs impose minimum and maximum contribution rates and other rules.

SIMPLE plans may benefit from two new contribution rules. First, employers may make nonelective contributions to employee accounts up to 10% of compensation or \$5,000. Second, the annual contribution limits (standard and catch-up) for employers with no more than 25 employees will increase by 10% more than the limit that would otherwise apply. An employer with 26 to 100 employees would be permitted to allow the higher contribution limits if the employer makes either a

matching contribution on the first 4% of compensation or a 3% nonelective contribution to all participants, whether or not they contribute. These changes also take effect in 2024.

Beginning in 2025, 401(k) and 403(b) plans will generally be required to automatically enroll eligible employees and automatically increase their contribution rates every year, unless they opt out. Employees will be enrolled at a minimum contribution rate of 3% of income, and rates will increase each year by 1% until they reach at least 10% (but not more than 15%). Not all plans will be subject to this new provision; exceptions include those in existence prior to December 29, 2022, and those sponsored by organizations less than three years old or employing 10 or fewer workers, among others.

Worker Savings Amounts: With Retirement Plan vs. Without



Source: Employee Benefit Research Institute, 2023. "With plan" includes workers with a defined contribution plan, IRA, or defined benefit (DB) plan. Total assets include savings and investments other than the value of their home and DB plan. Numbers may not add up to 100% due to rounding.

Participant Incentives on the Horizon

SECURE 2.0 drafters were creative in finding ways to encourage workers to take advantage of their plans. For example, effective immediately, employers may choose to offer small-value financial incentives, such as gift cards, for joining a plan, or beginning in 2024, they may provide a matching contribution on employee student loan payments. Also starting in 2024, workers will be able to withdraw up to \$1,000 a year in an emergency without having to pay a 10% early distribution penalty, which may ease the fear of locking up savings until retirement (restrictions apply).

1) SECURE stands for Setting Every Community Up for Retirement Enhancement and originated with the SECURE Act of 2019.

Should You Organize Your Business as an LLC?

There's a certain amount of risk that comes with owning a business. Accidents can happen no matter how well a company is run, and a lawsuit could be devastating if the business is found to be at fault.

A limited liability company (LLC) is a business structure that offers many of the same legal protections as a corporation. Establishing an LLC creates a separate legal entity to help shield a business owner's personal assets from lawsuits brought against the firm by customers or employees.

In theory, the financial exposure of the owners (members) would be limited to their stake in the company, but exceptions may include any business debt they personally guarantee or misdeeds (such as fraud) they carry out. But just like a corporation, an LLC can lose its limited liability if the owner does not follow formalities that continue to exhibit the separate existence of the business — which is known as "piercing the veil."

Beyond liability protection, there are some additional benefits associated with LLCs.

Tax efficiency. An LLC is a pass-through entity for tax purposes, so a firm may pass any profits and losses to the owners, who report them on their personal tax returns. Members can elect whether the LLC should be taxed as a sole proprietorship, a partnership, an S corporation, or a C corporation, provided that it qualifies for the particular tax treatment. For example,

about 71.5% of business partnerships are LLCs, as are 8.8% of sole proprietorships.¹

Credibility. Starting an LLC may help a new business appear more professional than it would if it were operated as a sole proprietorship or partnership.

Simplicity. In most states, an LLC is easier to form than a corporation, and there may be fewer rules and compliance requirements associated with operating an LLC. The management structure is less formal, so a board of directors and annual meetings are not usually required.

Flexibility. Being registered as an LLC may facilitate growth because it's possible to add an unlimited number of owners and/or investors to the business, and ownership stakes may be transferred easily from one member to another. LLCs may also be owned by another business.

The specific rules for forming an LLC vary by state, as do some of the tax rules and benefits. A written operating agreement that outlines the division of ownership, labor, and profits is a common requirement. It generally costs more to form and maintain an LLC than it does to operate as a sole proprietor or general partnership, but for many businesses the benefits may outweigh the costs.

1) Internal Revenue Service, 2022 (most recent data from 2019)

FinArc Investments, Inc. is an independent investment advisor registered with the U.S. Securities and Exchange Commission.

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