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FALL 2025

401(k) Plan Mistakes to Avoid

We all know how important it is to save for retirement, and 401(k) plans have become one of the most effective ways to save. However, many workers who have access to a retirement plan don't participate. That's probably the biggest mistake you can make.

Just because you are participating doesn't mean you're all set. There are 401(k) mistakes that can derail an investor's retirement plan. Here are some of the biggest mistakes:

Not Knowing How Much You Need to Save for Retirement — The first step is to determine the lifestyle you want during your retirement. Do you want to travel? Maybe you want to start a small business. Or perhaps you have a hobby you would like to pursue. All of these factors need to be considered in your estimate for retirement savings.

Most financial experts agree that you will need at least 70–90% of your preretirement income to live comfortably. But don't just use a rule of thumb, make sure to review your specific situation.

Not Saving Enough — Most experts suggest you save 10–20% of your income for retirement. Because

many companies auto-enroll new employees into their 401(k) plans using a default dollar amount, many employees fail to adjust the dollar amount and end up not saving enough.

Others may feel they just don't earn enough to contribute 10% to 20% of their income due to competing demands on their money, such as debt or building an emergency fund. If that is the case, at least try to save enough money to get the company match.

Another method that can help you increase the amount you save in your 401(k) is a contribution rate escalator. Many companies now offer this feature as part of their retirement plans. A contribution rate escalator increases how much you're saving by making small automatic dollar increases over time.

Not Paying Attention to Fees — There are typically three types of fees associated with your 401(k) plan, including administration fees,

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Before Investing in a 401(k) Plan

Here are three factors to consider before investing in a 401(k) plan.

1. Find Out When You Can Start Contributing — Some employers require waiting periods of up to a year before enrollment can occur, so be sure to check with your employer.

2. Understand the Company Match — One of the most enticing reasons to contribute to a 401(k) plan is the prospect of having your contributions matched by your employer. In many cases, employers may match contributions dollar-for-dollar, which can be an excellent way to build a solid retirement fund quickly. Some companies don't offer such generous matches, however, so ask your employer about the details before committing to a 401(k) plan.

3. Know When You'll Be Vested — When you're vested, you're legally allowed to keep the portion of money contributed to your 401(k) plan by your employer. In most cases, however, employees aren't considered vested until they've worked at the company for a certain period of time, such as five or six years. ○○○

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401(k) Plan Mistakes

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investment fees, and service fees. These fees can eat into your retirement account's potential growth. To understand how much you are paying in fees and expenses, carefully review your regular statements. Also, at the end of the year, you should receive a statement that will show how much you paid in 401(k) fees.

If you have an old 401(k) plan from a previous employer, you should compare that plan's fees to your current 401(k) plan to see if rolling it over to your new plan makes sense. Also consider an IRA rollover so that you can select the best investment options.

Too Much Stock in Your Company — Having company stock in your 401(k) plan may come with significant growth potential, but it may also increase the volatility of your retirement portfolio. If your 401(k) plan includes company stock, make an assessment of your risk. Most experts agree that your portfolio should not have more than 10% to 15% in any one stock.

Not Rebalancing Your Portfolio — The reason for asset allocation is to balance your portfolio across asset classes such as stocks, bonds, and cash so that if one is performing poorly, others will help offset losses. Over time, however, your investments may drift from your original asset allocation.

You should review your portfolio on a regular basis to determine if rebalancing is needed. Some 401(k) plans provide an automatic rebalancing feature that can do the work for you. If you do not have the time or inclination to rebalance your portfolio, you may want to invest in target-date retirement funds or asset allocation funds.

Not Contributing Enough to Get the Company Match — If your employer matches any percentage

Building a Bond Ladder

To build a laddered bond portfolio, there are four basic, interrelated decisions to make:

✓ **Decide on the average maturity.** This will be an arithmetic average of the maturities you use to build your portfolio, which will determine your portfolio's overall price sensitivity to changes in interest rates.

✓ **Decide how many rungs your portfolio will have.** This will determine how much of the span of available interest rates you'll be capturing (shorter maturities tend to come with lower interest rates and longer maturities with higher rates).

✓ **Decide how many years apart each rung will be.** This will determine how often you'll be reinvesting in the long-maturity end of your portfolio. The closer together the rungs, the more often you'll be buying current market rates for the longer bonds. Depending on which way rates move, this can help or hurt you.

✓ **Decide on the sector or sectors of the bond market you want in your portfolio.** Do you want safety? Then go with U.S. government bonds. Do you want tax-exempt income? Then go with municipal bonds. Do you want a higher level of interest than either of these sectors provide, but still want financially reliable issuers? Then go with high-grade corporate bonds.

The major advantage to laddering is to smooth out the changes in the bond income you receive year-to-year, thus making it more predictable. But there are also downsides to laddering. One is that you will have more transactions than a portfolio with one far-off maturity date.

And it could generate less income than if you put all of your money into the highest-yielding maturity available. The tradeoff is that if rates rise significantly long before your bonds mature, you're stuck with all of your money earning less than if you were to reinvest funds from maturing bonds in the higher yields. ○○○

of your contributions, you should at least contribute enough to get the company match. Look at your benefits package to determine how much your employer will contribute and take full advantage of this benefit.

In 2025, you can contribute up to \$23,500 in your 401(k) or up to \$31,000 if you are age 50 or older.

Not Considering a Roth 401(k) — With a traditional 401(k), you receive the tax benefits up front because the contributions lower your taxable income during the current tax year. When you begin taking distributions from your 401(k) in retirement, you will then have to pay ordinary income tax on the withdrawals. With a Roth 401(k),

you make contributions with after-tax dollars and your earnings grow tax-free, meaning you will not have to pay taxes when you withdraw your money. Typically, people who don't need to lower their income today or believe they may be in the same or higher tax bracket during retirement benefit from a Roth 401(k) plan.

You should compare the differences between the two types of 401(k) plans to decide which makes the most sense for you. Additionally, you may want to consider splitting your contributions between both types of 401(k) plans. Please call if you'd like to discuss this topic in more detail. ○○○

Debt and Your Retirement

Most people's vision of retirement not only involves freedom from work but also freedom from debt. A debt-free retirement is a laudable goal, but it's one that has become increasingly difficult for many to achieve. Mortgage, credit card debt — even student loans — now follow people into their golden years, and that can have serious consequences for their long-term financial health.

The Debt-Free Retirement Goal

When you retire, you stop actively earning income and start living on your savings. If you're still paying off debt, those payments will be another fixed expense, which means you'll have to draw more from your nest egg and have less to spend on things you truly enjoy. By going into retirement debt free, you'll lower your living expenses, which will make that nest egg last longer.

Reducing Debt before Retirement

If at all possible, you'll want to eliminate your debt before you retire. Of course, some types of debt are worse than others. High-interest credit card debt can be a significant

burden, so you'll want to eliminate it as quickly as possible. Look for areas in your budget where you can cut back and make extra debt payments, or consider a second job to make extra payments. If you have a car loan and are close to retirement, consider selling the car after you quit working, since many people find they no longer need multiple vehicles in retirement.

Getting debt-free before retirement may mean aligning your mortgage payoff date with your retirement date; you may be able to bring your mortgage payoff date closer by making extra payments. Often, retirees want the peace of mind that comes with knowing they'll own their home when they retire. But that accelerated payoff plan might not be right for everyone. If you have a relatively low-interest mortgage, no other debt, and are already maxing out your retirement savings, you may feel comfortable sticking with your standard repayment plan, especially if you can get more from investing the money you'd otherwise use to make the extra mortgage payments.

One thing you shouldn't do: take money out of your retirement accounts to pay off credit card or mortgage debt. If you focus all your

financial resources on paying off your loans, you run the risk of retiring with inadequate savings. Another potential misstep: prioritizing debt payoff over saving. While you don't want to be saddled with excessive debt, you also don't want to end up cash poor in retirement, without enough money to meet everyday expenses.

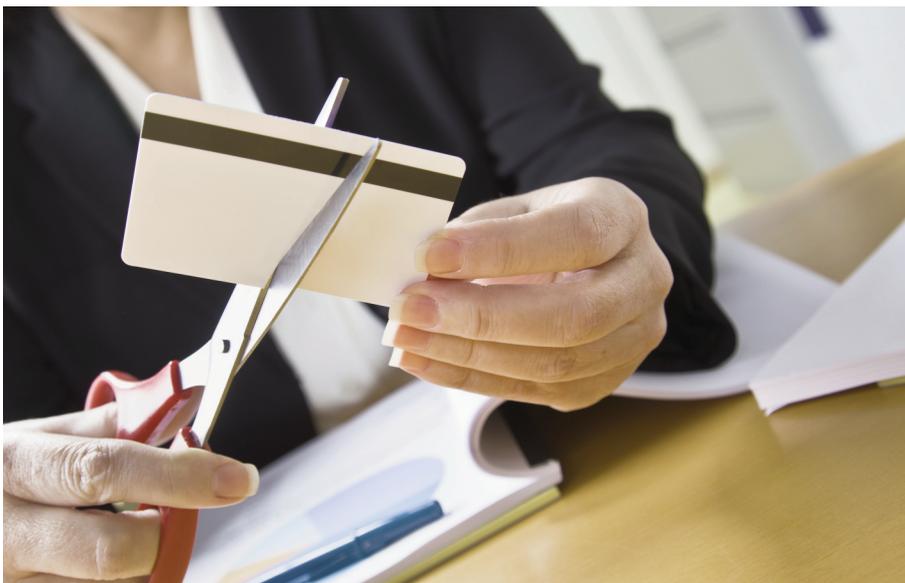
Debt in Retirement

Unfortunately, many people still end up nearing retirement holding a significant amount of debt. If that's your situation, you have several options. One is to delay retirement for a few years while you concentrate on paying off debt. Plus, if you continue to work, you're not tapping your nest egg, and it can continue to grow. In addition, if you delay claiming Social Security, your monthly payment will increase by up to 8% a year until you reach age 70.

If you must enter retirement with debt, you may need to pare down your lifestyle — traveling less frequently, moving to a smaller home, or giving up your boat or RV — to reduce debt and minimize the risk of outliving your retirement savings. You could also continue to work part-time or as a consultant. That can bring in extra income, and many people enjoy a more gradual transition to full retirement.

Finally, know that going into retirement with debt poses some other, specific risks. While most creditors can't garnish your Social Security payments, the federal government is an exception. If you owe back taxes, student loans, alimony, child support, or certain other types of payments, you may lose up to 15% of your Social Security benefit.

Interested in learning more about what you can do to retire debt before you retire? Please call if you'd like to discuss this in more detail. ○○○



Encourage Children to Fund IRAs

Once your children start working, help them develop good savings habits by encouraging them to fund an individual retirement account (IRA). Even if your child only contributes for a few years, IRA savings can grow to significant sums by the time your child retires.

Your child must have earned income to contribute to an IRA and may only contribute the lesser of earned income or the maximum IRA contribution, which is \$7,000 in 2025.

Although most children will be eligible to contribute to both a traditional deductible IRA and a Roth IRA, consider encouraging your child to fund a Roth IRA, which has several advantages:

✓ **Roth IRAs are more flexible.** Your child can withdraw all or part of his/her contributions at any time without paying federal income taxes or penalties. Thus, if your child later decides to use contributions for college, a car, a down payment on a home, or for some other purpose, contributions can be withdrawn with no tax consequences.

✓ **Earnings accumulate tax free, plus qualified distributions can be withdrawn tax free.** A qual-

ified distribution is one made at least five years after the first contribution and after age 59½. There are also certain circumstances where earnings can be withdrawn without paying income taxes and/or the 10% federal income tax penalty. If your child allows the funds to grow until at least age 59½, all contributions and earnings can be withdrawn without paying any federal income taxes.

✓ **A traditional deductible IRA offers little tax benefit to a child.** When your child first starts working, he/she will typically pay a low marginal tax rate on his/her income. So even though the Roth IRA contribution is not tax deductible, your child typically receives little or no tax benefit from deducting the traditional IRA contribution anyway.

If you can't convince your child to use his/her own money to fund the IRA, consider reimbursing him/her for their IRA contributions as part of your annual gift tax exclusion. Hopefully, you will also teach your child some important lessons about saving at an early age. Please call if you'd like to discuss how to implement this strategy for your child or grandchild. ○○○

401(k) Contributions

Before deciding how much to contribute to your 401(k) plan, find out three key figures:

What is the maximum percentage of your pay that can be contributed? The maximum legal limit that can be contributed in 2025 is \$23,500 plus an additional \$7,500 catch-up contribution for participants age 50 and over, if permitted by the plan. However, most employers set limits in terms of a percentage of your pay to comply with government regulations. This limit ensures the plan does not discriminate in favor of highly-compensated employees.

How much of your contribution is matched by your employer? Employers are not required to provide matching contributions, but many do. A common match is 50 cents for every dollar contributed, but many other variations also exist.

Up to what percentage of your pay does your employer match? Most plans only match contributions up to a certain percentage. For instance, the plan may only match contributions up to a maximum of 6% of your pay. ○○○

Financial Thoughts

According to Charles Schwab's Modern Wealth Survey, a net worth of \$774,000 is needed to feel "financially comfortable," while \$2.2 million is needed to be considered "wealthy." Both of these milestones are far greater than the average (median) American's wealth, which according to the Federal Reserve, was \$122,000 in 2019.

People born before 1964 —

baby boomers and the pre-WWII babies known as the silent generation — hold 64% of the nation's \$190 trillion of wealth, per the Federal Reserve. And they are expected to leave behind \$84 trillion to their descendants in the coming two decades, according to Cerulli Associates.

Baby boomers own private companies collectively worth almost \$8 trillion, including 41%

of U.S. small businesses, per government data. But many retiring entrepreneurs aren't passing them down to their kids, choosing to instead sell their mom-and-pop establishments to enterprising millennials.

Baby boomers own 37% of the homes in the US while making up a little more than 20% of the population, according to the Census Bureau. ○○○