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# Strategies from Steve

U P D A T E

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## A 3-Step Asset Allocation Plan

Perhaps the most important move you can make for your investments is to properly diversify your portfolio. By investing in a mix of stocks, bonds, and cash, you'll reduce the risk of a significant loss.

How you combine your diverse mix of investments is called your asset allocation. Asset allocation is a highly individual determination that's based on your risk tolerance, financial goals, and age. Asset allocation will spread out your investments among a mix of three types:

✔ **Stocks** — Stocks tend to be the riskiest investment. However, while they have the highest potential for loss, they also offer the greatest potential for gain.

✔ **Bonds** — Bonds tend to be less risky than stocks but more risky than cash equivalents.

✔ **Cash** — Cash equivalents, such as savings accounts, certificates of deposit, and money market accounts, typically offer the lowest risk and the lowest potential returns.

The benefits of allocating your assets across the three types of investments include:

✔ Proper asset allocation diversifies your portfolio among the three types of investments, reducing your risk.

✔ Allocating your assets between the three types of asset classes allows you to tailor your portfolio to your specific goals.

✔ You can help manage the level of risk and volatility of your returns.

### Considerations

To properly allocate your investments across stocks, bonds, and cash, consider this three-step approach to asset allocation:

Continued on page 2

## Changing Life Insurance Needs

**Just starting out** — Young, single adults may have little need for life insurance. With no major debts and no one else counting on their income, the death benefit provided by life insurance may not be needed.

**Married with no children** — If it takes two salaries just to make ends meet, you may want to purchase insurance to replace your income. You may also want to consider insurance to pay off at least half of your debts.

**Two incomes with children** — This is typically the time when your insurance needs are the greatest. The death of either spouse can create a financial hardship. Even if only one spouse works, the death of the nonworking spouse can require additional funds to take care of the children and home.

**Middle age with children** — You should reassess your insurance again as your children approach college age, since you may need to increase coverage to fund their education.

**Children out of college** — Your need for life insurance may decrease when your children become independent. On the other hand, you may find you now have different needs for insurance. You may want to provide additional funds for your spouse if you aren't sure your retirement assets are sufficient. Or you may have a large enough estate that you want to provide funds to help pay estate taxes.

Since your life insurance needs can change drastically over the years, you should periodically assess that coverage. Please call if you need help determining how much life insurance you require. ✔✔✔

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## A 3-Step

continued from page 1

### Step 1: Be honest about your level of risk tolerance.

Some people think that investing in a relatively unknown start-up company with a great idea is a sound investment, while others prefer to stick with stable companies with household names. In other words, people's risk tolerance varies.

If you don't mind the more dramatic ups and downs associated with higher-risk investments, you may see higher return potential. But if you can't stand the thought of putting your hard-earned money in an untested company, you're probably better off sticking with relatively low risk allocations.

### Step 2: Write down your financial goals.

What are the purposes of your investments? Are you saving to buy your first home? Planning to send your children to college? Looking to retire early? Whatever your financial goals are, knowing them will help you determine how to allocate your assets to help you meet them.

### Step 3: Consider your time horizon for meeting those goals.

How much time do you have before you need your money for your goals? Is retirement a long-term goal, with 30 years to go? Or is it a short-term goal, with only five years to go? If you're just starting a career, do you have short-term goals, like buying a house, as well as intermediate-term goals, like sending your children to college?

There's no consensus on exactly how much of your portfolio should be in any of the three investment categories at any time. However, the farther away in time you are from your financial goals, the more aggressively you can be invested.

If your financial goal is retirement, for example, and you're just starting out, you'll want to have a higher percentage of your assets invested in stocks and the lowest percentage in cash. As you near retirement, though, you'll want to reallocate your assets more conservatively, so that a larger percentage is in bonds and cash than in stocks.

Please call so we can help you allocate your assets given your unique situation. ✔✔✔

## Don't Touch Your 401(k) Plan

You have three options to keep your 401(k) funds in a tax-deferred vehicle until retirement:

✔ **Leave the funds in your former employer's 401(k) plan.** Generally, you can leave the funds in your former employer's plan if your balance is at least $5,000. However, most plans will not allow you to borrow from your account once you leave the company.

✔ **Transfer your funds to your new employer's plan.** Find out if your new employer's plan accepts rollovers. If so, you can typically make the rollover even before you are eligible to make contributions. However, first review the investment options to make sure the new plan will fit your investment goals. Once the funds are in your new employer's plan, you'll be able to take loans if permitted by the plan. Also, if you work past the age of 73, you won't be required to take distributions from the 401(k) plan until you retire. If you decide to transfer the funds to your new employer's plan, get the appropriate paperwork from your new employer so the funds can be transferred directly to the new plan's trustee. Otherwise, if the funds go directly to you, your former employer will be required to withhold 20% for taxes. You must then replace the 20% with your own funds within 60 days or the 20% withholding will be considered a distribution, subject to income taxes and the 10% federal income tax penalty.

✔ **Roll the funds over to a traditional IRA.** Again, you should have your former employer transfer the funds directly to the IRA trustee to avoid the 20% withholding described above. Once the funds are rolled over to an IRA, you can invest in a wide variety of investment alternatives. With a 401(k) plan, you typically have a limited number of options. If you plan on leaving part of your 401(k) balance to your heirs, an IRA usually has more flexible options than a 401(k) plan. After the funds are transferred to a traditional IRA, you can then convert the balance to a Roth IRA. ✔✔✔

# Should You Contribute to a Roth 401(k) Plan?

While many people are at least vaguely familiar with 401(k) plans, IRAs, and even Roth IRAs, a much smaller number are familiar with Roth 401(k) plans. This means there are some people missing out on a retirement planning option that just might be the better one for them. While they both share a similar tax status, there are more than a few ways that Roth 401(k) plans differ from Roth IRAs.

## Eligibility

Employees who are eligible for their employer's 401(k) plans are also eligible for the Roth 401(k) if this option is offered by the employer. Unlike a Roth IRA, there are no income limitations when it comes to who can contribute to a Roth 401(k). Contributions to a Roth IRA in 2025 are limited to those with a modified adjusted gross income under $165,000 for single filers but with reduced contributions starting at $150,000 ($161,000 and $146,000 in 2024) or under $246,000 for married joint-filers with reduced contributions starting at $236,000 (240,000 and $230,000 in 2024).

## Contributions

When it comes to how much you are able to contribute annually, the limits are the same as those for a regular 401(k) plan. That means $23,000 in 2024 and $23,500 in 2025, with an additional $7,500 as a catch-up contribution for those 50 years of age and older in 2024 and 2025. It is important to note, however, that your employer may set lower limits in order to comply with nondiscrimination rules. You can split contributions between both types of 401(k) plans, but the total cannot exceed the maximum allowed contribution amount. The employer matching contributions (if any) must be held in the regular 401(k) account and will therefore be taxed upon withdrawal. In 2024 and 2025, the contribution limits for a Roth IRA are $7,000 plus an additional $1,000 catch-up contribution for individuals age 50 and over. You can make contributions to both a Roth 401(k) and a Roth IRA, as long as you meet the income eligibility rules for the Roth IRA.

## Required Distributions

One of the reasons Roth IRAs are such effective estate-planning vehicles is because you are not required to take distributions from them at all in your lifetime. This means the tax-advantaged status rolls over to the beneficiaries of these assets, who will be able to withdraw qualified distributions without paying federal income taxes. However, this is not the case when it comes to Roth 401(k)s. With a Roth 401(k), you must start taking annual distributions after age 73, unless, of course, you roll the plan over to a Roth IRA.

## Conversions

If you opted for a regular IRA when you began saving but now see the merits of a Roth IRA, you have the option of converting the regular IRA to a Roth IRA. However, income taxes must be paid on the amount that would have been taxable if withdrawn. In contrast, there is no option to convert a regular 401(k) to a Roth 401(k).

If you are having a difficult time deciding between plans, you will have to weigh the same factors as you would when choosing between a traditional IRA and a Roth IRA:

✔ **Your current income tax bracket versus your expected income tax bracket during retirement.** If you believe your income tax bracket will be higher during retirement than it is now, a Roth 401(k) will typically allow for more retirement funds. This is generally the case with younger workers who are not in their peak earning years, as well as those who plan to fund most of their retirement with IRAs and 401(k) plans. On the other hand, those who expect their tax rate to decline in retirement may want to choose a regular 401(k) plan.

✔ **Whether or not you plan to leave assets to beneficiaries.** If you are using your 401(k) plan as a vehicle to provide tax-advantaged assets to beneficiaries, you should consider the Roth 401(k). Once you retire, you can roll the balance in your Roth 401(k) to a Roth IRA, without any tax consequences. You then do not have to take any withdrawals during your life. When your beneficiaries inherit the Roth IRA after your death, they will have to take distributions over their expected life expectancies, but those distributions will be federal income tax free as long as the distributions are qualified.

Fortunately, if you can't choose between the plans you don't really have to. You can always contribute to both, if it makes sense for your financial circumstances. However, you will still be limited by the total amount of contributions allowed by the IRS for the year. ✔✔✔

# Keeping Track of Retirement Plans

Now that defined-contribution plans are much more prevalent than defined-benefit plans, we have more responsibility for financing our retirement. But how can you do that if your accounts aren't even located in one place? Here are a couple tips:

**Organize your records.** As long as you continue to hold your account in a former employer's plan, you should receive statements. Keep them all in a file.

**Consolidate your accounts.** It's much easier to manage your assets if they're all in one place. Fill out the paperwork necessary for rolling them over into one account. That single consolidation account could be the plan you're currently contributing to, if the plan permits rollover contributions. You can also open a rollover individual retirement account (IRA) and have the funds from your other accounts directly transferred there.

If you've lost track of one or more of your accounts with a former employer, consider these tips:

- Contact your old employer and ask them to confirm that you participated in the plan and the steps you need to take to get a current statement.
- Find an old statement and look for a contact phone number or address.
- Most plans are required to file an annual Form 5500 with the U.S. government. You can search these 5500s for the name of your former employer at free websites like www.freeERISA.com. The 5500 will have the managing institution's contact information. ✔✔✔

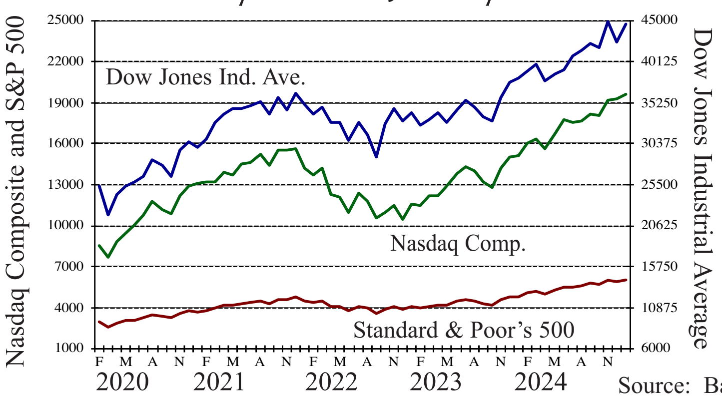
## Market Data

| | Month End | | | % Change | |
|---|---|---|---|---|---|
| Stocks: | Jan 25 | Dec 24 | Nov 24 | YTD | 12-Mon. |
| Dow Jones Ind. | 44544.66 | 42544.22 | 44910.65 | 4.7% | 16.8% |
| S&P 500 | 6040.53 | 5881.63 | 6032.38 | 2.7 | 24.7 |
| Nasdaq Comp. | 19627.44 | 19310.79 | 19218.17 | 1.6 | 29.4 |
| Total Stock Market | 60144.00 | 58399.25 | 60287.01 | 3.0 | 24.6 |
| Precious Metals: | | | | | |
| Gold | 2812.05 | 2616.45 | 2640.85 | 7.5 | 37.0 |
| Silver | 31.45 | 29.44 | 30.08 | 6.8 | 36.0 |
| Interest Rates: | Jan 25 | Dec 24 | Nov 24 | Dec 23 | Jan 24 |
| Prime rate | 7.50 | 7.50 | 7.75 | 8.50 | 8.50 |
| Money market rate | 0.40 | 0.42 | 0.43 | 0.48 | 0.50 |
| 3-month T-bill rate | 4.20 | 4.23 | 4.42 | 5.26 | 5.21 |
| 20-year T-bond rate | 4.88 | 4.86 | 4.45 | 4.20 | 5.34 |
| Dow Jones Corp. | 5.37 | 5.45 | 5.23 | 5.17 | 5.31 |
| Bond Buyer Muni | 4.44 | 4.46 | 4.26 | 4.48 | 4.84 |

Sources: Barron's, Wall Street Journal. An investor may not invest directly in an index.

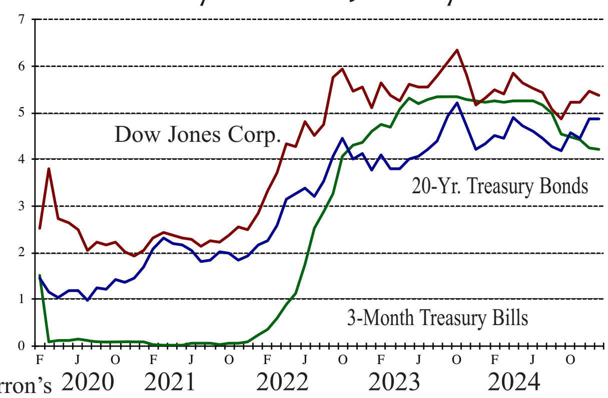
## Stock Indices

### February 2020 to January 2025




## Interest Rates

### February 2020 to January 2025




Source: Barron's



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