calamita
WEALTH MANAGEMENT

THE TOP 10 FINANCIAL MISTAKES
I SEE WELLS FARGO EMPLOYEES MAKE

After years of working with Wells Fargo employees (and being married to one), I've seen some patterns—certain financial planning challenges that pop up time and time again. As a firm, we have grown adept at understanding how these challenges affect Wells Fargo employees and how to best address them. Take a minute to look through this list and see if you can relate to any of them.

1. Missing Out on Catch-Up Contributions

Many people ramp up their savings in their 50s so that they can grow their nest egg before they retire. Thankfully, 401(k) plans provide an easy way to do this through catch-up contributions. Typically, you can save up to $23,000 (for 2024), but if you are over 50, you can include an extra $7,500, for a total of $30,500 a year. Be sure to increase your automatic contributions once you reach this age.

2. Not Maxing Out Your Match

Like many employers, Wells Fargo provides a 401(k) match, dollar for dollar, up to 6%. If you aren't able to contribute the full allowable amount to your employer-sponsored account, at least save enough to max out the 401(k) matching benefit. Here's an example of how this strategy can boost your retirement savings: If you earn $100,000 a year and save $6,000, you'll receive another $6,000 from Wells Fargo. That's money you don't want to leave on the table!

3. Forgetting to Diversify

Now that you've maxed out your employer match, you need to take one more very important step. Wells Fargo automatically invests your match (and any optional profit sharing) in company stock—specifically the Wells Fargo ESOP Fund or the Wells Fargo Non-ESOP Fund. Since you don't want to have all your eggs (your income, your savings, your benefits) in one basket, consider diversifying your investments to minimize risk. However, be sure to first consult with your personal tax or financial advisor regarding the special tax treatment that might be available to you if you were to receive Wells Fargo stock as part of a withdrawal from the 401(k) plan.

4. Ignoring Roth 401(k) Benefits

You have the choice to contribute to a traditional 401(k) (where you get a tax deduction now and pay taxes on the withdrawals when you retire) or a Roth 401(k) (where your savings will grow tax-sheltered and your qualified withdrawals are tax-free, but you don't get a tax break on your paychecks).

As there aren't income limitations on Roth 401(k) contributions, high-income earners can invest in a Roth 401(k) to earn tax-free income rather than contribute to and convert a traditional IRA into a Roth IRA. This can make a Roth 401(k) a good option for an individual who doesn't qualify for a Roth IRA but would like to generate a tax-free retirement income.

Your choice will depend on your unique financial situation, but regardless of where you land, be sure to weigh the pros and cons and work with a professional to run some numbers.

5. Not Looking Beyond Your 401(k)

Speaking of savings vehicles, when you've contributed to the limit of your 401(k), don't stop there. If you are able to save above and beyond what your Wells Fargo-sponsored retirement plan allows, consider making after-tax, non-deductible contributions to an IRA.

If you qualify for a Roth IRA, that's one option. But did you know that you can also contribute to a traditional IRA? And depending on your income, you may be able to deduct a portion or all of your traditional IRA contribution. But even without a tax deduction, this step can help you save more for your future — up to $7,000 for 2024 ($8,000 if you're 50 or older). You also get the benefit of this money growing tax-deferred which could save you thousands of dollars in taxes.

6. Neglecting to Rebalance

It's important to rebalance your portfolio every year to make sure your target asset allocation is intact and your investments are aligned with your risk level, but it's even more critical to do this as you draw closer to retirement.

At retirement, the last thing you want to experience is losing a large portion of your investments due to a misallocated portfolio. Your money should be allocated based on your age, time horizon, and personal risk tolerance as well as how much risk you need to take in order to meet your retirement goals. Someone who is 20 years away from retirement and okay with losing 15% of their money is going to have a portfolio that looks very different from someone who is retiring in 5 years and isn't willing to lose more than 8% of their savings. A financial professional can walk you through the process of determining exactly what level of risk you want to take and can afford to take, how much liquidity you need, and help you design a portfolio customized to your needs.

7. Not Taking Advantage of Timing

If you are planning to retire before you claim your Social Security benefits and start taking your required minimum distributions (RMDs), you might want to look into a Roth conversion. If you earned too much to qualify for a Roth IRA over the years, but you still want to reap the tax advantages they offer, you can pay taxes now to convert your traditional IRA to a Roth, reducing the amount you are taxed when you withdraw your savings in retirement.

This needs to be a strategic decision. though; otherwise, you could risk bumping yourself up into a higher tax bracket for the year, since the amount withdrawn from your traditional IRA will count toward your annual income. But if you find yourself in a lower tax bracket before you start dipping into your Social Security and savings, you could save money in taxes down the road.

8. Not Accounting for Stock Risk

Some Wells Fargo employees have access to restricted stock awards. When this stock vests, you risk incurring a tax liability. This is why you need to plan ahead to minimize the taxes you pay. If it's disadvantageous for you to pay taxes when these stocks vest, you can opt to take a Section 83(b) election when the restricted stock is granted and pay ordinary income tax on the amount at that time, rather than at vesting when your stock may be worth more and face higher income taxes (you will still need to pay capital gains tax on any stock gains at the time of sale but the idea is to pay as little income tax as possible).

9. Failing To Address Medicare Surcharges

If you are a high-income earner (over $103,000 for 2024), you will face a Medicare surcharge for Part B and D. This is over and above your premium amount. The surcharge IRMAA (income-related monthly adjustment amount), is based on your tax returns, but because of the timing of when your IRMAA charge is determined and because it's always calculated looking at past returns, yours might need to be adjusted. Retirement, considered a life event, allows you to file form SSA-44 to possibly lower your IRMAA and receive a new determination.

10. Not Optimizing Your HSA for Long-Term Savings

While many people use their HSA funds to pay for current out-of-pocket medical expenses, you can also maximize your contributions, letting them grow for use in retirement when you'll likely need them most. HSAs are a great complement to your other retirement savings accounts, allowing your IRAs and 401(k) s to cover regular living expenses. In this way, your HSA acts as a contingency fund earmarked just for health costs. Why wouldn't you just stick with traditional retirement accounts? Because an HSA receives better tax treatment than any IRA or 401(k), it is a powerful way to maximize your nest egg.

Don't Make These Mistakes!

> The good news is that you don't have to sort through your retirement and Wells Fargo benefit questions alone. At Calamita Wealth Management, we help Wells Fargo employees understand their unique options and determine the best course of action to meet their specific goals. To learn more, schedule an introductory phone call using our online calendar or reach out to us at (704) 276-7325 or todd@calamitawealth.com.