Expense Report

Understand expense ratios to help maximize your retirement savings

A mutual fund expense ratio is a critical metric to understand when managing a 401(k) account. It represents the annual fee that a mutual fund charges its investors, expressed as a percentage of the fund's total assets. This fee covers the operational costs of the fund, such as management fees, administrative costs, and other expenses like marketing or distribution (sometimes referred to as 12b-1 fees).

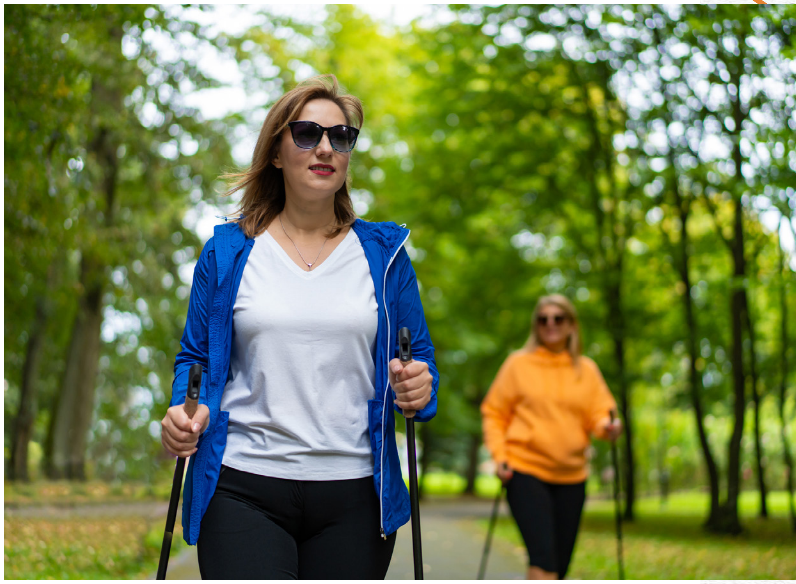
In a 401(k), where mutual funds are common investment options, the expense ratio directly affects your investment returns. For example, if a fund earns an annual return of 8% and has an expense ratio of 1%, your net return is reduced to 7%. Although this may seem minimal, the cumulative impact over decades of investing can significantly reduce your retirement savings due to the compounding effect of costs.

A Positive Trend

According to the Investment Company Institute, 401(k) mutual fund expense ratios have decreased by 60% since 2000. They report that fund providers have continued to lower fees to stay competitive. In addition, older workers invested in funds with higher expense ratios have been retiring and withdrawing their cash from 401(k) plans. At the same time, younger workers entering the plans tend to choose lower-cost mutual funds to help keep more of their money. The cycle repeats, and this drops the average mutual fund management fees that investors pay.

Doing Your Homework

Expense ratios can vary widely depending on the type of mutual fund. Actively managed funds (which aim to outperform the market) typically have higher expense ratios. Index funds or passively managed funds (which track a market index) often have lower expense ratios. When choosing funds for your 401(k), cheapest isn't necessarily best.



Evaluate whether the fund's historical performance justifies its costs and aligns with your retirement goals. Here are two good sources of information on your plan's investment offering:

- Your employer's summary plan description. Most employers provide a summary plan description for their 401(k) plans, which includes detailed information about investment options and associated expense ratios. In addition, your annual plan fee disclosure document outlines all the fees related to the plan, including fund-specific expense ratios.
- Fund provider websites. Websites of mutual fund providers offer detailed expense ratio data for their mutual funds. Look for the fund's prospectus or fact sheet, which breaks down fees and performance.

MCB® Investment Services

Informational Sources: Investment Company Institute: "The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2023" (July 2024); Bankrate: "What is an Expense Ratio and What's a Good One?" (October 2, 2024).

REINVENTING RETIREMENT
Second Quarter 2025

Invest in Their Future

A 529 college savings plan is a great way to prepare for the rising costs of higher education

Looking for a great way to invest in a child's future? A tax-advantaged 529 college savings plan is specifically designed to help families save for future college expenses. It can make a big difference in helping a child achieve their education goals and career aspirations.

How Does It Work?

Although contributions to a 529 plan are not tax-deductible, the money is allowed to grow tax-free. When the funds are used for qualified education expenses such as tuition, room and board, books (and even certain K-12 costs), you don't pay federal income taxes on the withdrawals. These plans can be tailored to fit your needs and provide flexibility, such as:

- **Use at any accredited institution.** Funds can be used at eligible colleges, universities, vocational schools, and even some international institutions.
- **Control over the funds.** The account owner retains control over how and when the funds are used.
- **High contribution limits.** Many plans have no annual contribution cap, and lifetime limits vary by state but are often substantial.

Key Benefits

One of the biggest benefits of 529 plans is that you get to enjoy tax-free growth and withdrawals for qualified expenses (some states offer additional tax deductions or credits for contributions). In addition, if your beneficiary doesn't end up needing the funds, you can transfer the account to another family member.

Who Can Open a 529 Plan?

Parents, grandparents, godparents, aunts, uncles or even family friends can open and contribute to a 529 plan. You can also name anyone as the beneficiary.

Class Dismissed

Just like with your 401(k) savings plan, the earlier you start, the more time your money has to grow. Even small, regular contributions can add up over time. For more information, check out savingforcollege.com. You'll find information on state-specific 529 plan options and a comparison of different 529 plans, along with savings calculators and cost estimators.

Informational Source: savingforcollege.com

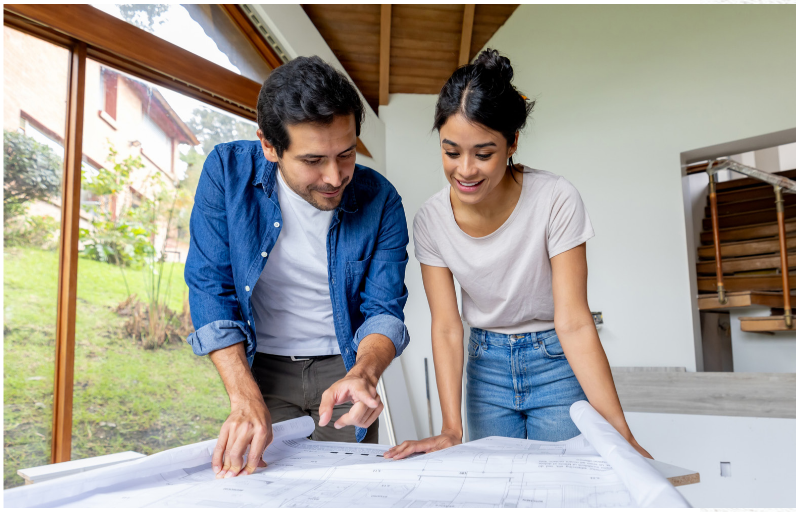
Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

Loud and Proud

Loud budgeting can help you align your spending with your values and goals

As a financial management strategy, loud budgeting is a relatively new and simple concept. It involves turning down social opportunities outside of your budget, such as an impromptu dinner or an expensive weekend away. But it goes a step further: You tell people that those activities don't fit into your budget and why. Loud budgeting encourages you to "make noise" about your priorities by aligning your spending with your values and goals.

Unlike budgeting techniques that focus purely on managing cash in and cash out, loud budgeting focuses on managing money in a way that balances financial goals with personal priorities.



Here are some examples of loud budgeting in action:

- **Prioritizing travel and experiences.** You love traveling, so you allocate a significant portion of your budget to vacations, flights, and unique experiences. To make room for this, you consciously minimize spending on dining out, buying new clothes, or upgrading tech gadgets.
- **Investing in health and wellness.** If fitness is a top priority, you might spend on a premium gym membership, personal training, or healthy meal delivery service. To balance the budget, you might skip expensive hobbies or entertainment subscriptions.
- **Supporting education and self-development.** You might value lifelong learning, so you allocate funds for online courses, workshops, or attending conferences. To afford this, you reduce spending on luxury items or entertainment.
- **Building a dream home.** If creating a comfortable home environment is important, you might splurge on high-quality furniture or interior design while cutting back on vacations or eating out frequently.
- **Family and community.** You might direct resources toward supporting your family, like paying for your child's extracurricular activities, saving for their education, or donating generously to causes you care about. In exchange, you might drive an older car or limit discretionary spending.
- **Fashion or hobbies.** If you're passionate about fashion or a specific hobby, you could spend more on designer clothes, art supplies, or sports gear, while being thrifty in other areas like entertainment or dining.

Loud budgeting is about unapologetically aligning your money with your values, even if it's unconventional. It's the financial equivalent of saying, "This is what matters to me, and I'm going to focus on it."

Informational Sources: Experian: "What is Loud Budgeting and Is It for You?" (March 30, 2024); SoFi: "What is Loud Budgeting?" (September 18, 2024).

Retirement In Motion

Tips and resources that everyone can use

Knowledge Is retirement power

According to the Employee Benefit Research Institute, nearly 1 in 3 retirees (31%) say they spent more than they can afford in 2024—up from just 17% saying the same in 2020. Anticipating certain expenses later in life can alleviate financial anxiety and allow you to enjoy your retirement with confidence.

Q&A: How often should I review my 401(k) investments?

It's a good idea to review your 401(k) portfolio at least once a year. You'll want to review your goals, time horizon, risk tolerance and portfolio performance. As your life and financial markets evolve, your preferred asset allocation can drift off course. To stay aligned with your preferred asset allocation, you may need to periodically rebalance your portfolio by selling some assets that have grown in value and buying others that have lagged. And if your priorities and goals change, you may need to adjust your asset allocation.

Quarterly Reminder

If you anticipate receiving a tax refund this year, consider creating an emergency fund with some or all of it. It's important to have this money available for when something unexpected comes up, such as a car, refrigerator or dishwasher breaking down. Aim to have 3–6 months of living expenses saved in an account that is separate from your checking account.

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