LET'S TALK FINANCIAL WELLNESS®

November/December 2023

Retirement Planning: Moves to Make at Year-end

What comes to mind when you think about retirement? Chances are good that money is on the list. As the new year approaches, consider the steps you've taken and those you could take to help ensure a comfortable lifestyle once you retire.

Ballpark Your Retirement Needs

It is impossible to know how many years you'll spend in retirement. You could be retired for 15, 20, or 30 years, or longer. So, maximizing your savings rate to accommodate longevity is critical. For 2023, you can set aside up to $22,500 in a 401(k) or other qualified retirement plan. Savers age 50 or older can make an additional catch-up contribution of $7,500. You have until December 31 to increase contributions.

IRAs: Another Way to Save

Traditional and Roth Individual Retirement Accounts (IRAs) offer another way to save for retirement. With a traditional IRA, contributions are made before taxes are taken out. Contributions and earnings accumulate tax deferred until withdrawal, when you'll pay tax at your regular income tax rate and, if taken prior age 59½, may be subject to an additional 10% tax. Roth IRA contributions are made after tax, but withdrawals of contributions and earnings are tax-free at retirement provided the plan has been in place at least five tax years, and the distribution occurs after age 59½, with a few exceptions.

For 2023, you can contribute a maximum of $6,500 to an IRA, with a $1,000 catch-up contribution if you're age 50 or older.

Contribute to an HSA

One of your biggest expenses in retirement may be medical and long-term care costs. Although Medicare will kick in once you turn 65 and are not covered by an employer's health plan, you'll still need a supplemental policy to pay expenses that Medicare doesn't cover. With a High Deductible Health Plan (HDHP), individuals can contribute $3,850 and families up to $7,750 pretax to a Health Savings Account (HSA). Withdrawals are tax-free when used to pay qualified medical expenses.

Review and Rebalance

Your financial professional can help you rebalance your portfolio to stay in line with your goals and risk tolerance.

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I am committed to helping my clients achieve their financial goals for themselves, their families and their businesses by providing them with strategies for asset accumulation, preservation and transfer.

Retirement Version

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Teach Your Kids the Value of Money

Kids tend to want almost every toy they see in the store or everything their friends have. While it's not always easy to resist giving your children everything they ask for, teaching them early to save for the things they want can make those items more valued.

Give an Allowance

Even very young children can perform simple tasks around the house. A savings jar or a piggy bank can show them how much they're earning and how close they are to having enough money to buy the item they're saving for.

Open a Savings Account

You can open a savings account for your child at just about any age. Kids' savings accounts typically require a parent or other adult to have joint ownership or control. Look for an account with no fees or minimum balance. Encourage your child to deposit birthday or holiday money or, when older, a portion of earnings from a job in the account.

Set an Example

Your approach to spending can teach your kids that they need to save and budget for those expensive items they want. Sharing how you save for big-ticket items, such as a new car or a family vacation, can be an important lesson.

Age 18? They're Legally Adults

You might have a different opinion as a parent, but in most states, 18-year-olds are considered adults. That means you may no longer be able to make medical or financial decisions or access your child's records without your child's consent. Before heading to college or moving into an apartment with friends, your child should sign these basic documents, giving you a legal right to make health care and financial decisions on your child's behalf.

Durable Power of Attorney — authorizes you to make financial decisions for your child, including everyday financial tasks (good to have if your child is away at school) or if your child becomes incapacitated. It allows you to pay bills, file taxes, perform banking tasks, apply for government services, and more. It can also give you access to college records.

Health Care Proxy — authorizes you to make medical decisions if your child is incapacitated or incompetent and unable to make them. A health care proxy comes into effect only under these circumstances.

HIPAA Release — gives you access to your child's medical information. The release lets you speak to doctors concerning your child's health and view medical and billing records.

Keep these documents where you can easily access them. Parents should make sure they have these important documents for themselves as well.

Adopt Healthy Money Habits

Your relationship with money may have its roots in your childhood. How your family handled their finances can affect your attitude toward spending and saving as an adult.

If your family saved responsibly for the things they wanted to buy, chances are good that you will, too. But, if your family squandered money and never saved, their bad money habits may be influencing how you handle your finances. Make sure you're practicing good money habits like the ones below.

Examine Your Spending Habits

Buying small items, such as coffee and a bagel, every day on your way to work can add up to a substantial amount over time. Write down everything you buy over one or two weeks to find out how much you're spending. You might be surprised at the total. You can adjust your spending habits once you see where your money is going.

Live Within Your Income

Paying with cash means you'll be able to spend only as much money as you have on hand. If you use a credit card, make sure you can pay off the balance when the bill comes.

Pay Yourself

Treat your savings as a bill by putting money in your account every month before you pay anyone else. As your income rises, increase the amount you're saving.

Follow a Spending Plan

Build a monthly budget based on your income and expenses. Remember to account for items you pay yearly, such as insurance or homeowner association.

Plan for a Cash-only Holiday

Do you often find yourself still paying off holiday bills long after the holidays are over? Keeping spending under control can be difficult during the holidays, which is the reason using cash — not credit — is so important. Here are a few tips.

Be efficient. Make a list of people you're shopping for and the amount you intend to spend. Include ideas for gifts they've asked for or that you think they would like to help keep you focused.

Use cash or a debit card. You won't be able to spend more than you have on hand or in your account.

Avoid the mall. Sales might tempt you to buy items that aren't on your list.

Shop from home. Your favorite stores and online vendors have websites where you can order specific items you're looking for without the distraction of store displays.

Tracking Holiday Debt

LendingTree, an online lending marketplace that allows borrowers to compare rates from multiple lenders, has been conducting an annual holiday spending survey for eight years. The chart shows the amount of debt Americans incurred over the holidays for every year through 2022.

Source: Annual LendingTree Holiday Debt Survey, December 2022

SECURE 2.0 Act Could Impact Your Plans

The SECURE Act and SECURE 2.0 Act made several changes that could affect your retirement and estate planning. Understanding what they could mean for your plans and discussing your options with your tax and financial professionals should be a priority. This article summarizes some of the Act's provisions.

Raising the Withdrawal Age

SECURE 2.0 Act raised the age at which you must take required minimum distributions (RMDs) from qualified retirement accounts, such as a 401(k) or other tax-deferred plans. Retirees can wait until April 1 of the year after the year in which they turn 73 to begin taking withdrawals, potentially allowing another year for their account balance to grow. In 2033, the age for taking RMDs will increase to 75. In addition, the tax for missing a required withdrawal has been significantly reduced.

A 10-year Time Limit

The Act imposes a 10-year limit on distributions from inherited IRAs. Previously, IRA beneficiaries could take RMDs throughout their lifetimes and leave the IRA principal to the next generation. Now, recipients of an inherited IRA must deplete the account within ten years. This rule curtails the ability to transfer wealth from one generation to the next. Spouses, dependent children, and disabled or chronically ill beneficiaries are not affected by the 10-year limit.

New Use for Unused Funds

You can convert funds in 529 savings plans* not used for education expenses to a Roth IRA for the account beneficiary. A child or grandchild who does not need all the money in the account to pay for education can now get a head start on retirement savings.

A Searchable Database

The Act requires the creation of a "lost-and-found" database where families can search for qualified retirement accounts that may have been forgotten by the deceased. Lost funds generally default to the state. The purpose of the database is to help beneficiaries claim the funds.

Get Professional Help

Changes brought about by the SECURE Acts may impact your situation. Getting your legal, tax, and financial professionals involved in reviewing your current plans can help determine whether you need to make changes.

* Certain restrictions apply. For example, the 529 savings plan must have been open for more than 15 years and the maximum that the beneficiary may rollover during their lifetime is $35,000. Speak with your financial and tax advisors for additional information.

ADVERTISING REGULATION DEPARTMENT REVIEW LETTER

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Our review is based on your representation that the final version of this communication will prominently disclose the name of the member, pursuant to FINRA Rule 2210(d)(3)(A).

The communication submitted appears consistent with applicable standards.

Reviewed by,

Jeffrey R. Salisbury
Principal Analyst

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