Episode 120 Issues to Consider at the Beginning of the Year

Patti Brennan: Hi, everybody. Welcome to "The Patti Brennan Show." Whether you have $20 or 20 million, this show is for those of you who want to protect, grow and use your assets to live your very best lives.

If you are watching this podcast today, you are seeing me in an Eagles jersey. By the time this podcast is actually aired we're going to know the outcome of the Super Bowl. I'm going to start by saying "Go Eagles!" Thank you so much for tuning in.

Today we are going to talk about the issues you should think about at the beginning of the year. The reason for this podcast is at the beginning of every year I think about the three Rs. What are the three Rs? The three Rs stand for reflect, rewire, and reset.

I recently had a conversation with someone as we were looking at their W-2, which as you guys know, we tend to dig deep. As I was doing so, I pointed out that they had underfunded their 401(k). The person was actually really surprised that they had fairly significantly underfunded it, and they had all this extra money that they had put in the bank that year.

They said something that really had an impact on me. They said, "Gosh, I wish I had known." Because of course, this was the end of January of the following year, and it's just too late.

Listen up today because the things that we're going to be talking about are things that you might want to consider now. When I say now, it's February, we're not sure when this is going to air. It won't be too late.

Let's take the first R, reflect. Let's reflect on last year. What were you hoping for, and what actually did happen? What progress did you make?

Now, I'm going to give it to you straight. It was a terrible year in markets, all of them. Stocks went down. Bonds went down. It shouldn't matter as it relates to your long-term progress because in spite of the things that no one has any control over, what did you do about it?

Did you move some of it out of the markets? Did you leave it where it is? Did you continue to contribute into your different accounts? That's the most powerful strategy that you could employ when there is that much volatility.

Reflect on what you did last year, reflect how it might have felt while you were doing it. Understand nobody likes to lose money on paper, certainly not me. Feel that fear, but just don't do anything about it. These are things that we have to experience and lessons to be learned by reflecting.

Are there any events or changes that might happen for you this year? Anybody getting married? Do you need a new car? That's really important. I think that that's important to know a couple years ahead of time so that you can reserve for them.

Be real, what's coming up this year? Tuitions, for example, earmark that money. You don't want to become a victim of circumstances. If you've got that fully invested, we don't know whether or not it's going to be worth more or less, and you don't want to have to sell it when it's worth less.

Are there any particular milestones that are going to occur this year? Are you turning a particular age? Are you turning Social Security age, for example? Should you collect it? Run the numbers.

How about Medicare? What about supplements? What should you do?

What are the milestones that you might be facing this year? Sit down with your advisor, do some brainstorming. How can you be ready when those milestones occur? Are you concerned about any variables or circumstances that might happen this year?

I've talked a lot and wrote in my quarterly letter, "Whether we have a recession or not, nobody really knows." This is probably one of the most expected recessions ever. Frankly, we're probably talking ourselves into one.

Unfortunately, what often happens with recessions is people lose their jobs. If you are a working adult, get yourself ready. We all want to think that we're never going to lose our job. It happens. The question is if it does happen, are you prepared? Do you have a plan B?

Do you expect your income or expenses to change in any material way this year? Talk to your advisor, get real about it, figure out that cash flow strategy. Ideally, you still want to be saving money, but there are going to be years when you're not. I don't want you to be anxious about it, understand the long-term implications, that's all.

Again, with that 401(k) example, review your benefits at work, make sure that you're taking full advantage of the benefits that are available to you this year. Again, next January, it's too late. Even at the end of the year, it's really hard to fully fund a 401(k) or do other forms of savings at the last minute. Let's not do that. Let's do it right now.

Can you contribute to an IRA? That's one thing where it is not too late. You can still contribute to IRAs for the prior year up to April 15.

One of the things that I'd like to suggest to all of you is go on our website and request this really cool guide. I love this guide. It's a cheat sheet. What it does is it gives you all of the tax brackets, gives you the standard deductions for this calendar year, what the rates are on capital gains, and who's going to be hit by that ugly Medicare tax, and at what level of income talks about estate taxes?

On the back, it goes over all the different types of retirement plans, the maximum contributions, who can contribute to an IRA, and take a tax deduction, who can contribute to a Roth and have that available. By the way, whether you're working or not, don't forget those spousal IRAs. Go ahead and stash that money.

Have a conversation with your tax advisor or your financial advisor. Should you do Roth? Should you do regular?

HSAs, when can you start deducting long-term care premiums? There's all this stuff on Social Security and Medicare. At what point are you going to start getting penalized with the Medicare premiums? It's all here on this two-page document. Go onto our website at www.keyfinancialinc.com. Go into one of those "contact us" prompts, and just ask for it. We'll send it to you, email, easy.

That's what we're here for. We're here to give you whatever information you need to make the right decisions for yourself and your family this year.

What are some of the other things you may want to consider this calendar year? Again, we talked about your employee benefits. Specifically, do you have a flexible spending account available?

By the way, if you did, and you haven't used it, remember, if you don't use it, you lose it.

There's a whole new law that was passed on December 23rd of 2022 that has to do with required minimum distributions. Just to name one of the things. There's not a lot of press that has been published about the Secure Act 2.0. It is a big deal. I am shocked at the number of provisions that are changing, and we're not hearing about it.

We're going to do a completely separate podcast on that, but for those of you who may be approaching or at required minimum distribution age, don't take the money out because you may not have to yet.

They changed the age at which point you have to take it out. If you were born in 1960 or later, guess what? You don't have to take money out until you're 75. Most people listening don't have to start taking required minimum distributions until they're 73. Prior law was age 72.

A lot of changes as it relates to required minimum distributions. Again, tune into that show because it's filled with nuggets, really juicy ones, by the way, good ones, and a couple of traps. That's all I'll say on that. Think about your annual gifting.

The other thing that I want to talk a little bit about and from a practical perspective is, we talk about this emergency fund. The rule of thumb is three to six months of expenses. I'm not so caught up in the rigid nature of three to six months expenses. However, I do think it's important to understand what your watermark is.

What we're finding is a lot of people are dipping below that level of comfort. What will be your strategy for this calendar year if that happens? How are you going to put more money into that, create that infusion where you're going to be comfortable? For those of you who don't have a home equity line of credit, go get one.

They don't cost much money to set up. Some banks don't even charge you. It's another source of funds that is available anytime. You're not paying any interest on it until you're pulling the money out. It avoids that horrible situation of growing credit-card balances. Home equity line of credit as a backup to your emergency fund.

As it relates to your portfolio, again, talking about last year, even the most stoic people out there felt that fear of, "Wow, this is really uncomfortable." Now that we're into 2023, markets seem to be recovering, don't know if it's going to continue. Again, you may want to tune into the podcast that Brad and I did on our outlook for 2023.

Take advantage of this time to take a look at your portfolio, rebalance your investments, and do the tax-loss harvesting. If you didn't do tax-loss harvesting last year, and I hope that you did, or I hope that your advisor did, if it wasn't done, it is not too late. Look at your after-tax accounts, not your retirement accounts, your after-tax brokerage accounts.

See if there are any losses that you can harvest. In English, all that means is you're moving from blue chip investment A to blue chip investment B, it's a same day exchange, you're not market timing, I don't believe in that, but now you have a tax deduction that you otherwise wouldn't have had. If you really like Blue Chip A, you wait 30 days to avoid the wash sale roll, and you move it right back in.

Again, it's a great way to have Uncle Sam cover some of the cost of those losses by saving money on taxes. Tax loss to harvesting, not too late, rebalance your portfolio if it's out of whack. What was unusual last year is because everything went down, portfolios didn't get lopsided as much as one would think, but they got a little bit out of whack. Rebalance is a great way to turbo-charge.

As it relates to your credit score, again, we did a separate podcast on the five Cs of credit. Take a look at your credit score because the roles are changing effective this summer. It's a big deal, especially for those of you who are young, you need that good FICO score. What is changing is, under the current regime, it's more of a snapshot.

For those people who are applying for mortgages, often people will sit down and say, "OK. Here's how to restructure your balance sheet so that your FICO score goes up and you can get a lower mortgage rate." Effective summer of 2023, that game is going to be over because what they're going to do is they're not going to look at it as a snapshot. They're going to go back 24 months, to see what your credit usage has been about.

Check your credit score. Don't be surprised after the summer if it goes down a little bit for some of you, some of you might find it goes up, but it is changing.

The other thing to consider at the beginning of this year, because of the amount of cyber fraud, if you don't think that you're going to need a new loan of any kind, a new car loan, a new mortgage, think about freezing your credit, especially if you don't think that you're going to use it. You can unfreeze, it doesn't even cost the $10 anymore, whenever you think you might be needing it, but this way you're protected against somebody else pretending to be you and applying for a mortgage.

If the bank or the lending arm can't get your scores, guess what? You're not getting a loan. That's an easy way to protect yourself against fraud. From a tax perspective, thinking about the IRA contributions, the one thing that has not changed -- that again surprises us -- is Congress has not taken away this thing called a "backdoor Roth."

Even though you may not think you qualify for an IRA, you may qualify for a backdoor Roth. Talk to your advisor, it's a great tool. I can tell you, it's a home run. IRAs are still available, irrespective of the amount of income that you might make.

From an insurance perspective, for those of you who have those high deductible plans, make sure you're funding that HSA. HSA accounts are probably the only free lunch that we have available, because it's tax deductible now, it grows tax deferred, and if it's used for medical care, medical insurance, etc., you're not paying taxes on it when you take the money out.

It's triple tax free. HSAs are a great deal for those of you who have those high deductible plans. By the way, sidebar, if you are approaching Medicare age, you don't want to be funding that that last year because it affects the plans and the supplementals that you'll actually get. Again, make sure that you're talking with your advisor as you approach these milestones.

Another question you might want to ask yourself is, "Should I be reviewing my insurance?" I don't love talking about insurance. I don't know about you. It's not my favorite topic, but it is really important. I have never met a widow or a widower who thought that their spouse was over-insured, just doesn't happen. Review your coverage.

I'm also not a fan of having too much because it costs money. That money could be redirected into other important financial objectives.

Disability insurance is the same thing. If you're working for a company, most companies give you up to 60 percent of your income. Take a look at your disability coverage.

By the way, do a pay stub review. Do you pay for a portion of that disability insurance? If so, make sure you are paying with after-tax dollars. It might be $5 or $10 a month that you're paying for that disability coverage, but by paying with after-tax dollars, if you need that coverage, if you become disabled and now you're getting disability income, guess what? It's tax-free.

If you pay those premiums with before-tax dollars, you have to pay taxes on it, and you're only getting 60 percent already. Again, pay stub review. Sit down with your advisor. Make sure that it's done the right way for you.

Have you made any improvements to your property, or added any special valuables? Meet with your property casualty agent.

We do not consider ourselves experts on property casualty insurance. We've done several podcasts, one recently, which was really an eye-opener because it was with somebody who had experienced a lot of natural disasters, floods, fires, and the things that were shared on that podcast were really eye-opening to me.

Again, you want to protect yourself. The one sentence, one omission can make all the difference in the world. Review your insurances with someone that you know you can trust.

Last but not least, are wills and trusts. Again, not a fun subject, but it does need to be reviewed from time to time, and it will especially need to be reviewed assuming that this law that we have now sunsets in the year 2025. In the meantime, take a look at it because ultimately this is a letter to your executor that basically says, "When I die, this is what I want to have happen."

Things have a way of changing. Is that still what you want? Again, one sentence, one word. There's substance abuse clauses. There's now a trust protector provision so that once you've gone, if there's a change in the law, the trust protector can come in and maybe suggest to the trustee a change of one form or another.

You still need an attorney, but by doing that, you don't have to go to court to change a trust because trusts are irrevocable. Again, these are things that you sit down with your attorney who specializes in estate planning, your financial advisor who really knows and understands you, and has taken the time to understand the dynamics of your family.

I think that's so important. It's something that we do, and I think that is...It makes all the difference in the world. Along with that, you also want to look at your titling. How are things titled? Is it joint with rights of survivorship? Because if it is, guess what, your will doesn't really matter. It's automatically going to that other person.

In Pennsylvania, we like to title things, "Joint tenancy by the entirety." It has better protection for married couples in the event of a lawsuit. There are some nuances.

Look at the beneficiary designations that you have on your retirement plans and your life insurance. Every once in a while, just got to check into that stuff and make sure that the things that you want to have happen actually will

Patti: For those of you who have a business, think about doing the three Rs for your business, reflect, rewire, reset.

It's a great tool as a leader to run your business. It's a great tool because, frankly, we're all leaders, whether we have a business in our families, to really take a look at what happened last year, what's coming up this year, and what am I going to do about it?

Thank you so much for tuning in today. I hope this was helpful. Again, "Go, Birds." For those of you who would like to have this great two-page cheat sheet, it's chock-full of information, use it as resource, keep it, go on to our website at keyfinancialinc.com.

Remember, we do these podcasts to serve you. We're Key Financial Wealth Management with wisdom and care. Have a great day.