FINANCIAL CHANGES YOU SHOULD CONSIDER IN 2024

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As a new year approaches, you may reflect on 2023 and what changes you want to make in 2024. These changes may include living a healthier lifestyle or learning a new skill or hobby. While these are great goals, reflecting on your financial health and seeing if any positive changes can be made is important. These changes may include retirement planning, estate planning, insurance planning, and debt payoff strategies. You can likely make changes, even if they are minor tweaks to your current strategy. In this newsletter, I want to give you some topic ideas that may require more of your attention in the new year.

Retirement Planning

If you are currently employed, chances are your employer sponsors some type of retirement savings plan, like a 401(k), 403(b), SIMPLE IRA, profit sharing, etc. The traditional form of these accounts is that they are pretax and will be taxable income upon withdrawing the funds in retirement. But your employer may also provide the option to contribute to a Roth account. Contributions to a Roth are taxed, but once inside the account, the funds grow completely tax-free and will be tax-free income in retirement. Not all employers offer this option, but if you are unsure if your employer does, it may be a good idea to inquire some additional information about your options.

Now, you may be thinking that Roth is a much better option because you will receive income tax-free. While the tax-free nature of the account is very appealing, that doesn't always mean it's the better option. What it comes down to is which account will minimize the taxes you pay over your lifetime. With a Traditional IRA or employer account, your contributions are not taxable and are deducted at tax time. You are essentially deferring the tax you will pay until you are in retirement. With a Roth IRA or employer account, your contributions are taxable up front and not deductible at tax time. That is why the account grows tax-free.

Typically, if you are in a lower tax bracket, it's best to contribute to a Roth because you are most likely in the lowest bracket you will ever be in during your life. It's best to pay those taxes up front at a lower rate rather than later on during retirement. If you are currently in a higher tax bracket and expect your income to go down in retirement, it's best to contribute to a Traditional account so you can defer taxes and pay when you are in a lower bracket. This decision, which seems so small, can actually save you thousands of dollars in tax payments over time.

Whether you participate in a retirement plan at work or you have an IRA, a new year is a good time to evaluate how much you are contributing to a retirement account. If you don't systematically contribute to any type of account, that would be a great goal to work on in 2024. Even if it's a small amount you contribute every month, it's a good stepping stone to your financial future. Additionally, if you already contribute systematically, maybe you will increase those amounts in 2024. It's always a good idea to raise your contributions a little bit every year. That way, you don't notice the subtle increase over time.

Estate Planning Documents

A lot of changes can happen in one year. Maybe in 2023, you will welcome a new addition to the family, get married, purchase a new home, or retire from your job. All of these major life changes are reasons you should review your estate planning documents. If you don't have estate planning documents in place already, that is definitely a goal you should work on in the new year.

The main estate documents I recommend are a will, financial power of attorney, healthcare power of attorney, and a living will. These documents need to be updated every few years or anytime there is a major life change. For example, if you and your spouse became parents in 2023, you should probably add a guardianship clause to your will. Or if you got married in 2023, your will and beneficiary designations should be updated so your new spouse receives assets if something happens to you. I know this isn't a fun discussion to have, especially at the beginning of a new year, but I can argue it is one of the most important conversations to have. Not having these documents in place when tragedy happens will lead to a lot of time and money spent in the probate court, which is not how you want to spend your time and energy heading into a new year.

Life Insurance Benefits

Continuing on with the example above, these are also great reasons to reevaluate your life insurance policies. Life insurance is more of a necessity when you are married, own property, and have financial dependents. Over your life, your insurance needs will change. If you are younger and don't own property or have anyone financially reliant on you, you probably don't need any life insurance. But as you purchase your first home, acquire debt, and have others depending on you for income, life insurance becomes a necessity.

You really need to look at the big picture and think about all the expenses the life insurance payout could be used for. If you have children, you may want to pay for their college, help them with their first car purchase, or even a home purchase. If you are married, you want to make sure that if something happens to you, your spouse is not left with large debt payments that both of you were originally paying together. I recommend about ten times your annual salary for life insurance. This should cover most, if not all, of your family's needs, and having an adequate policy will provide you comfort knowing your family will be taken care of if tragedy occurs.

Paying Down Debt

Another financial area that can be quite challenging is paying down debt. It's so easy to look at your financial situation and feel defeated because the amount of debt you have is negatively impacting your ability to save. A new year is a great time to evaluate your debt payoff strategy and make some changes to help your overall budget. I typically advise two different strategies, and which one you choose depends on your goals regarding the debt.

If your goal is to save the most money in interest, I advise paying off the credit card or loan that has the highest interest rate first. This may take a little longer, depending on the balance of the loan, but in the long run, it will save you the most in interest payments. However, there is also a physiological factor to debt that can greatly impact your stress. If you are the kind of person who doesn't like having debt because of its stressful nature, it may be best to focus on the credit card or loan that has the lowest balance first. If you focus on the debt with the lowest balance first, you will feel more accomplished and motivated as things are paid off. You will also feel a sense of relief and peace knowing that you are slowly freeing up your cash flow and making progress. I don't think one strategy is necessarily better than the other because your mental peace is also essential and valuable. You just need to decide what category you fall into.

These topics are just a few I could go into detail about. But I think these areas discussed are some of the most important and impactful. These are easy changes you can make that can will have a positive outcome. Later in your life, you will be so happy you gave the time and attention to review these tedious areas of your financial plan. They may seem like small tasks, but it's the small changes over time that will set you up for success in retirement.

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