

## Simple Actions Today Can Lead to Positive Results Tomorrow

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### The Journey of a Thousand Miles...

Managing your personal finances can feel like a daunting task. You are not alone. Only about 25% of Americans have some kind of written financial plan<sup>1</sup> – and the results can be costly, as financial illiteracy cost Americans an estimated \$436 billion in 2022<sup>2</sup>.

You may be asking yourself: “Where should I even start?” In the spirit of **Financial Literacy Month**, we provide some practical tips and strategies to help you begin to take control of your personal finances. And we encourage you to check out our annual comprehensive [Financial Planning Guide](#) for even more great ideas.

### Retirement Planning

To many people, compound interest is considered the ‘Eighth Wonder of the World’. While perhaps a bit of hyperbole, we do know that saving money early and often is foundational for a successful retirement. Unfortunately, according to research, 57% of American workers save less than 10% of income<sup>3</sup> and nearly 56% of Americans surveyed are concerned that they will not be able to ‘achieve a financially secure retirement’.<sup>4</sup> Below are some suggestions on how to better save for retirement.

- Maximize contributions (\$22,500 + \$7,500 age 50+ catch up in 2023)<sup>5</sup> to your company retirement plans (401k, 403b) and/or at a minimum, contribute enough to receive the full employer match.
- Consider backdoor Roth IRA contributions if your income level prevents you from making direct Roth IRA contributions. This is done by making a ‘non-deductible’ contribution to a regular IRA and subsequently rolling over that same contribution into a Roth IRA. There are some IRS rules to follow, so we recommend speaking with a tax advisor or financial planner to ensure success.

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<sup>1</sup> Schwab 2019 Modern Wealth Index Survey, May 2019

<sup>2</sup> Source: National Financial Educators Council 2022 Survey

<sup>3</sup> IRI Retirement Readiness Research Series: “Retirement Readiness Among Older Workers 2021” (August 2021)

<sup>4</sup> “Retirement Insecurity 2021” The National Institute of Retirement Security (February 2021)

<sup>5</sup> TIAA – “IRS Announces 2023 Plan Contribution and Benefit Limits”

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- If self-employed, contribute to a Solo 401(k) (\$66,000 in 2023)<sup>5</sup>, SEP-IRA (\$66,000 in 2023)<sup>5</sup> or defined benefit plan.
- Utilize online retirement projection tools<sup>6</sup> to assess your current savings versus future spending needs; plan ahead and assume longevity.

## Income Tax Planning

Taxes can have a significant impact on wealth, investment returns and your long-term financial planning goals. While April is Financial Literacy Month, it is also when most people file their tax returns. Proper tax planning requires year-round attention.

- Know the difference between your income tax bracket and your **effective** income tax rate (i.e., your tax rate inclusive of deductions, credits, etc.). Knowing the tax rate you actually pay can assist you in making better tax decisions related to items like the efficacy of making additional charitable contributions, the impact of a Roth conversion, or taking a part-time job in retirement. Tax filing software and/or your tax preparer can provide you with this comparison.
- Review ‘asset location’ of your investments to maximize after-tax returns and minimize unnecessary tax drag.
- Gift long-term appreciated securities rather than cash when making charitable contributions as doing so will help avoid future capital gain taxes on the sale of those securities.
- If your income varies considerably year-over-year, ensure either safe harbor withholding amounts or make estimated tax payments during the year to avoid costly IRS underpayment penalties.

## Estate Planning

Regardless of wealth, having a proper plan in place is essential to ensure your family’s financial security after your death.

- Consider drafting both wills and powers of attorney (financial and health) to not only direct your financial affairs at your passing or incapacitation but also to name guardians for minor children or other special asset bequests.
- Periodically review your estate plan documents to ensure alignment with your current situation and evolving state/federal limits.
- Don’t forget about estate taxes at the state level, as many states have estate exclusion amounts well below the federal level<sup>7</sup>.

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<sup>5</sup> TIAA – “IRS Announces 2023 Plan Contribution and Benefit Limits”

<sup>6</sup> e.g., Bankrate.com, Schwab.com, Fidelity.com

<sup>7</sup> Resource: The American College of Trust and Estate Counsel: “State Death Tax Chart: (January 2022)”

- Review your beneficiary designations at least annually and as your life circumstances evolve (e.g., children, divorce, increase in wealth, etc.).
- Consider more advanced planning techniques such as gifting strategies, trusts and charitable vehicles to help reduce estate tax liability prior to death.

## Insurance Planning

Insurance is a tool to protect your assets, your income and your family. Policies can range from simple to the complex and are an important component to financial health.

- Review older life insurance policies for continued necessity or conversion options.
- Assess current property & casualty & umbrella policies, especially given changes in net worth or property values; look for gaps in liability coverage.
- Review health insurance and long-term care insurance to ensure proper coverage, terms and conditions and potential impacts on Medicare & Medicaid eligibility.

While the above is not a comprehensive list, simply tackling a few of these items today could go a long way towards successful future financial outcomes for you and your family.

If you have questions about whether your finances are on the right long-term path, please reach out to an Investment Consultant in The Wealth Office®.

## About the Author



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Adam joined Fiducient Advisors in 2004. As Partner and Director of Consulting for The Wealth Office®, Adam is responsible for the oversight of the firm's Wealth Office® consultants and setting the strategic direction for the group's consulting business. He also provides investment expertise to a number of high-net-worth families, private foundations and nonprofit clients. Adam co-leads our High Net Worth and Family Office Business Councils. Before this, he was a Senior Financial Planner with The Ayco Company L.P., a subsidiary of Goldman Sachs, Inc. Adam is a Certified Financial Planner (CFP®) and member of the Financial Planning Association. He is also a CFA® charterholder and member of the CFA Society Chicago. Adam earned a Bachelor of Science with high honors in Finance and a minor in Financial Planning from Purdue University. He is a founding board member of the nonprofit organization, Angel Tracks, a Board member of the St. Charles Education Foundation and an Advisory Board member for Investing in Communities (IIC). In his free time, Adam enjoys cycling, reading and hanging out with his three kids and high-school sweetheart wife.