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YEAR-END FINANCIAL PLANNING CHECKLIST

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Year-End Financial Planning Checklist

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Americans are notorious for overspending when the holiday season rolls around. While that may be good for the economy in the short term, it often ends up being bad for household budgets. Ultimately, though, overindulging a bit in spending during the holidays doesn't need to create hardships if you know your broader financial situation is in good shape. In fact, the last two months of the year are a perfect time to create and go over a Year-End Financial Planning Checklist, ideally in partnership with your financial advisor.

The end of the year is the best time for this process because certain key financial deadlines fall on December 31. Beat them, and you'll improve your odds of enjoying your holidays knowing you're on track to meet your long-term financial goals, even if you decide to overspend a bit on gifts for the kids or grandkids. You can consider this year-end financial checkup a gift you give yourself!

The items included on your checklist may vary depending on your age and situation, but if you are actively saving for retirement (especially if you are already retired or within 15 years of retirement), your Year-End Financial Planning Checklist should include the following:

Taxes

This is easily the most important and potentially beneficial area to examine before the year ends. One of the most common financial mistakes people make is waiting until February or March to meet with their CPA or advisor to talk about taxes. By that time, the deadline to correct mistakes or take advantage of any potential savings opportunities may well have passed. Having a tax meeting in November or December means you are taking a proactive approach to tax planning, which better ensures that you won't end up giving the IRS any more of your hard-earned money than you absolutely must.

It's important to have this meeting every November or December because tax laws and guidelines change from year to year, as does your own financial situation. A savings strategy that might not have been right for you last year (or for which you may not have qualified) may be a smart move that results in big savings this year.

Charitable Donations

One very useful and popular potential tax strategy to look at before the end of the year is charitable contributions since the deadline for deducting contributions is traditionally December 31. Rather than donating cash, some people donate appreciated securities, which may also allow you to avoid a capital gains tax.

Also, the Qualified Charitable Distributions (QCD) law was made permanent in 2016. This makes donating to a qualified charity a great option for satisfying Required Minimum Distributions (RMDs) in a cost-effective way. Basically, a QCD allows you to transfer a gift of up to $100,000 directly to a qualified charity from an Individual Retirement Account (IRA) without counting it toward your adjusted gross income (AGI) or incurring a tax.

In addition to the tax savings, the QCD can count toward or be used to fully satisfy RMDs for the year in which the donation is made.[1] That's a great advantage if you are a charity-minded IRA owner who doesn't need any part of your RMD for personal income, or if you don't already have it earmarked for some other purpose.

Estate Planning

If you already have an estate plan, it's a good idea to review it at the end of each year to make sure every aspect of it is still in the best interest of you and your family. If you don't yet have an estate plan, schedule a meeting with your advisor to talk about this important topic. The fact is, even if you've done an otherwise great job with your finances, your assets could still be vulnerable if you ignore estate planning. Any number of unforeseen circumstances—from lawsuits to tax penalties to healthcare costs—can jeopardize your assets if you haven't taken the right steps to protect them legally with the assistance of a qualified estate planning attorney. The benefits of having an estate plan in place include avoiding unnecessary legal costs and taxation, protecting yourself against possible Medicaid spend down, and—most importantly—protecting loved ones from legal headaches, arguments, and difficult emotional decisions.

Health Insurance

It's also a good idea to review your health insurance and health savings accounts every year, even if your health status hasn't changed from the previous year. As you get older, the likelihood that a significant portion of your retirement savings will need to be put toward healthcare costs and long-term care increases. According to a report by the Kaiser Family Foundation, 70% of seniors will, at some point, need long-term care service and support because of physical or cognitive impairment. According to that same study, 48% of people aged 40 or older actually anticipate that they will need long-term care as they age, yet only 35% say they have set aside funds to pay for their long-term care needs.[2] Could long-term care insurance be a sound financial option at some point? Again, that may be a good discussion to have with your financial advisor at the end of each year.

Goals

The best way to make sure you are on track to meet your retirement goals is to identify specifically what those goals are and revisit them each year. Goals can change, and sometimes they must be adjusted in response to new developments and circumstances in your life. By the same token, your financial strategy may periodically need to be adjusted to make sure it still aligns with your goals and doesn't jeopardize them, which sometimes happens.

Surveys show that most people have what are known as "purpose-based" retirement goals, meaning they are saving and investing for a particular purpose, not merely to accumulate the maximum amount of wealth possible. That would be "performance-based" investing, and it is relatively rare. The truth is, most people simply want to have sufficient retirement income to be able to live comfortably, travel, and enjoy their favorite pastimes without worrying about running out of income or incurring a major financial loss. This is why shifting one's financial focus from growth to income can make good strategic sense for investors who are retired or within 10 to 15 years of retirement.

Risk Assessment

Generally, most people want less investment risk as they get older, and understandably so. As you age, you progressively lose the luxury of time to recover from a major financial loss. This is another good reason why making that shift from investing-for-growth to investing-for-income makes sense for most investors within 10 to 15 years of retirement. By their nature, most income-based strategies are designed to decrease your risk of incurring a major financial loss. The end of the year is always a good time to assess your risk because market performance can change dramatically from year to year, and many analysts and advisors have valuable insights to share about what the coming year may hold in store.[3]

Planning for Next Year

As noted, the holidays are traditionally a time when many Americans get caught up in the giving spirit of the season, and they overspend. But, if you've already anticipated that possibility a full year in advance and prepared for it, you can indulge your generosity without feeling guilty or fearful that it's going to come back to hurt you. Focusing on the big financial picture and your retirement plan is important, but so is re-examining your daily living expenses, anticipating changes, and identifying possible ways to save more, earn more, and/or spend less in the year ahead.

Summary

Depending on your situation, there are several other items you might consider adding to your checklist such as maximizing contributions to your tax-advantaged retirement accounts, looking at a 401(k) rollover or Roth IRA conversion, and reducing debt. Whatever may be on your own Year-End Financial Planning Checklist, for best results, we suggest going over it with a trusted, qualified professional financial advisor—ideally, one who specializes in income and typically works with investors within 10 to 15 years of retirement.

Sources:

1. www.irs.gov
2. Visualizing Health Policy, Kaiser Family Foundation. August 28, 2013. Volume 310, No. 8
3. www.macrotrends.net

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