THE Wealth REPORT

In a recent survey, Fidelity found that 71% of Americans met the financial goals they set for 2021.[1] In addition to continuing those resolutions, the beginning of a new year is a good time to shore up weak spots and simplify your financial plan.

START THE NEW YEAR OFF RIGHT

Overview

At the end of every December, we celebrate and hope for a healthy and prosperous new year, but we never know what to expect. The past few years have provided excellent examples of loss, pain and even prosperity.

Since we can't know the unknowable, it's important to be prepared. This is a good time of year to check the boxes and make sure your financial situation is sound and easy to access and understand — even for your loved ones — and to clean up any nettling issues. Even small loose ends can take time and hassle to resolve, so take care of them now.

This Wealth Report provides a series of steps everyone should consider to help make saving, earning, spending, investing, insuring, retiring and — yes, even passing away — easier for all involved.

Emergency Fund Resources

One of the best ways to shore up your financial security is to have three months to a year's worth of emergency savings. At the very least, save in an account with liquid access to securities that have no tax or penalty consequences, such as a Roth IRA.

Having available cash to pay for unexpected expenses and/or supplement the loss of regular income can help prevent you from racking up high-interest debt and protect against having to tap investments. This is likely your best defense against any financial strain caused by the loss of income due to a pandemic, a recession, or a major medical or home expense.

Pandemic-Proof Your Income

We thought we'd seen it all in the Great Recession. The investment markets may have taken a tumble, but that was nothing compared to the loss of home equity and the 8.7 million jobs lost between 2007 and early 2010.[2]

And yet, the COVID-19 pandemic showed us a different side of loss. Not only were 9.5 million jobs eliminated,[3] but lockdowns, social distancing and working from home tested the mettle of our collective mental health. From isolation to juggling work while overseeing children schooled online to not being able to see or hug grandparents — the impact was nearly universal. Many working moms quit their jobs for caregiving duties, and many baby boomers decided to retire early rather than risk their health.

What the pandemic taught us is that we can't always predict how the next crisis will affect us. If you work for a living, consider how to protect your income should your job be at risk. For example, perhaps you can deploy your skills and knowledge to building an additional source of income, ranging from freelance work to consulting to helping out neighbors with home projects or selling homemade wares on Etsy.com.

If you are retired, consider ways to diversify your income sources so that you have multiple streams in case one or more are threatened. For example, rent out your second home or even a wing of your home. Another way to build an alternative income stream may be to transfer the risk of loss from your investment portfolio to an insurance company. By repositioning a portion of your assets to purchase an annuity, you can likely count on receiving insurer-guaranteed income throughout retirement.

Also, many of today's life insurance policies offer flexible features that may permit you to withdraw from a cash account or tap the policy for a loan. Be aware that loans that are not repaid in full may affect the face value of the policy's death benefit.

Inflation-Proof Your Portfolio

Rising inflation will likely continue to test the buying power of household budgets in 2022. While you may not be able to do much about higher prices, you can help protect your investments from the impacts of inflation. Consider allocating a portion of your portfolio to investments that tend to grow in tandem with inflation. The following are some ideas you may wish to discuss with your financial advisor.

- Series I Savings Bond – The I-Bond is guaranteed by the U.S. government and protects an investor from inflation by crediting his or her account with a fixed interest rate plus the annualized inflation rate of the preceding six months. Moreover, the account value will not decline when prices fall, earned interest is not subject to state and local taxes, and federal taxes are deferred until the bond is cashed.[4]

- Treasury Inflation-Protected Securities (TIPS) – These securities allow an investor's principal to increase in tandem with inflation and decrease when inflation declines. The coupon rate remains fixed, so payouts vary based on the inflation-adjusted principal. Upon maturity, the investor receives the greater of the adjusted principal or the original principal.[5]

- Dividend-Paying Stock Index Fund – An index fund composed of dividend stocks offers both diversification and inflated-hedged income via rising dividends.

- Real Estate Investment Trust (REIT) – A company that owns or finances a range of income-producing real estate, such as office buildings, apartment buildings, warehouses, retail centers or hotels. REITs pay out reliable dividend income that tends to rise with inflation, along with rental prices.

Can You Weather Volatility?

We have witnessed initial market declines whenever a new variant of the coronavirus is identified, a scenario that is likely to continue through 2022. The key is not to panic sell. In fact, if you are financially secure, you can use the occasional dips to purchase more shares for potentially greater profits when the market recovers.

Now may be a good time to consult with your financial advisor to "stress-test" your investment portfolio. If you own holdings that are particularly vulnerable to periodic bouts of volatility, consider repositioning those assets to alternatives that tend to perform reliably under duress, such as:

- Government bonds
- Consumer staples stocks
- Well-established dividend stocks
- Fixed index annuities (FIAs)

Un-Diversify

Many times in our efforts to diversify, we over diversify. In other words, investments spread out over a range of mutual funds and individual securities may overlap substantially — which means you may actually be less diversified than you think. Take some time at the beginning of the year to review the underlying holdings of your investments. You may find significant overlap among the different types of accounts you hold, such as a 401(k) plan, an IRA and a brokerage account with stocks, bonds, mutual funds and ETFs.

Can You Weather the Weather?

In December 2021, we witnessed unimaginable devastation caused by tornadoes in Middle America. You never think that your entire home and all of your belongings will be wiped out, but it can happen. This may be a good time to climate-proof your life savings to make sure you are properly insured. There are many types of policies to consider in addition to a homeowners policy, so consult with an insurance agent to bolster potential weak areas. For example:

- Flood insurance
- Supplemental insurance for accidents or long-term disability
- Personal umbrella policy
- Special riders for things like valuables (jewelry, furs, fine arts,

- musical instruments, silver), antique and collector cars, watercraft/yachts, all-terrain vehicles
- A life insurance policy that offers a cash account from which you can make limited withdrawals

Also, recognize that climate change could potentially ravage your investment portfolio as well. Some industries are more affected by natural disasters than others, such as gas production, home improvement products and services, and property insurance. One way to protect your portfolio may be by diversifying internationally. Since different hemispheres experience opposite seasons, they are not subject to the same types of weather disasters at the same time.

Remember, if you do suffer from portfolio losses, you may be able to offset them with tax deductions for property damages caused by a natural disaster. Check out the IRS website (https://www.irs.gov/newsroom/tax-relief-in-disaster-situations) to see if you meet the criteria for tax relief.

What's Your Retirement Plan?

Have you set a retirement date? Even if your expectations change, it's better to have a plan than just wing it. This is particularly important when it comes to starting Social Security benefits. You and your spouse should coordinate your benefits strategy to help you start with the highest Social Security benefit for which you qualify. If you begin drawing benefits before your full retirement age (FRA), that payout will be permanently lower than if you wait until your FRA.

Moreover, you can fully optimize your lifelong Social Security benefit by delaying until age 70, during which time you will earn credits for a higher payout.[6] An additional perk to delaying retirement is the ability to save and invest longer for a larger nest egg — which would then be needed for a shorter time frame.

Consolidate

If you're like most people, you have worked for several different companies during your career and may have left a trail of 401(k) plans. Now may be a good time to roll over and consolidate them. Consider transferring those assets to your current employer's 401(k) plan, if possible. Otherwise, think about rolling over former employer plan assets into an IRA.

If you have multiple IRAs, consider consolidating them into one for ease of tracking performance, managing fees and taking required minimum distributions (RMDs) during retirement. If you have one traditional IRA and one Roth IRA, this may help diversify your tax liability during retirement.

Automate
If you are not using online banking yet, go ahead and set that up for the new year. This makes it easier to schedule your bills to be paid on time, and you can even set up repeat bills to autopay regularly. This is a good idea in case you ever have to evacuate and do not receive your mail for a while — scenarios that are all too familiar these days.

If you spend a fair amount of time away from home, request electronic bills instead of mailed ones. This makes it easy to pay your bills remotely — which is important for several reasons during retirement. For example, if you decide to live in a second home for part of the year, you'll still be able to pay bills without being at home to receive them. As you get older, it may be easier if bills are set to be paid automatically in case you forget to pay them.

It is also a good idea to automate any incoming funds, such as RMDs, investment dividends and other payouts. In fact, it may be a good idea to have all of your bank accounts consolidated into one by the time you retire for ease of managing your incoming and outgoing cashflow.

Get Your Estate Plan Sorted Out

Most people leave their estate plan to the last, often waiting until retirement. If you haven't done so yet, the beginning of 2022 is a great time to get all of your ducks in a row. It will likely help alleviate that nagging feeling that your estate plan isn't where it needs to be.

The following steps can help ensure your estate plan is up to date:

- If you don't have a will, it's time to draw one up — even if it's a simple one that leaves all your assets to one person. This is a roadmap that will make it easier for your beneficiaries to go through the probate process without having to prove how you intended to leave your assets.
- Revocable Living Trust – allows your beneficiaries to likely avoid probate altogether.
- Advance Medical Directive – details treatment preferences (such as "do not resuscitate") and appoints a person to make decisions about your medical care if you are unable to.
- Living Will – states what you want to happen if you become incapacitated.
- Financial Power of Attorney – assigns a person the legal authority to act on your behalf concerning financial issues.
- Update beneficiary designations on your financial accounts any time there are changes to your family dynamic, such as marriage, new children, divorce or death.

- Work with an insurance advisor to ensure you have adequate financial protection should one or both spouses pass away.

- Maintain a file or notebook for all of your legal documents, financial accounts and insurance policies, and be sure to include your login credentials, any auto-payment information and named beneficiaries.

"Actions taken at the start of the pandemic — such as budgeting better and replenishing that emergency savings fund — are becoming permanent habits for many."[7]

Final Thoughts

It's also important to recognize that you don't have to do all your 2022 financial strategizing on your own. In fact, it may be better if you work with an experienced financial advisor so that someone other than you understand your needs and why you made the decisions you did. Also include your spouse and children, when appropriate, so everyone is on the same page. This can alleviate a lot of family strife in the future.

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[3] U.S. Department of Labor. "The American Rescue Plan Act: Delivering immediate relief to America's workers." https://www.dol.gov/general/american-rescue-plan. Accessed Dec. 29, 2021.
[4] Alice H. Munnell. MarketWatch. July 24, 2019. "The Treasury's I-bond is a wonderful product." https://www.marketwatch.com/story/the-treasurys-i-bond-is-a-wonderful-product-2019-07-24. Accessed Dec. 16, 2021.
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[7] Rebecca Moore. Plan Sponsor. Dec. 14, 2021. "Financial Goal-Setting a Main Focus For Individuals Heading Into 2022." https://www.plansponsor.com/financial-goal-setting-main-focus-individuals-heading-2022/. Accessed Dec. 16, 2021.