YEAR-END FINANCIAL PLANNING CHECKLIST

BULL OAK CAPITAL

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Year-end is the ideal time to take stock of your finances and match them up with your goals and aspirations. Making a few strategic decisions regarding investing, taxes, estate planning, and budgeting can create an annual wealth-building and personal housekeeping habit. In fact, every year, my wife and I set aside time to review our year-end contributions, tax payments, insurance, estate plan, and investments to ensure that we're maximizing our income and minimizing expenses and tax payments. We also want to make sure that our spending lines up with our values.

FOR A SYSTEMATIC APPROACH, USE THIS ANNUAL FINANCIAL REVIEW CHECKLIST TO STREAMLINE THE TASK.

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Review Your Budget

Unless you are financially independent, you need to balance income versus spending. If you haven't begun **budgeting** yet, now is the ideal time to start. A budget is the foundation for future financial success as your annual income must be allocated for spending today and deferred to pay for expenses tomorrow.

The final quarter of the year is a good time to review actual income and to compare it with the projected figure. With a few months remaining in the year, there's enough time to adjust spending habits and ensure that enough of this year's income is available for retirement savings, intermediate-term goals, and expected tax payments.

Feel free to dowload our **free excel budget template**.

Examine Your Credit Report and Score

With identity fraud a real concern, it's important to take advantage of the free annual credit report available from each of the three major credit reporting agencies. Each year consumers are eligible to check their credit for free one time from each agency. That's a total of three checks per year.

The credit report shows whether there have been any credit requests made or opened by a stranger. As credit reports can affect mortgage rates, credit card approvals, and job applications, it's crucial to ensure that all the information is accurate.

Catch identity theft early by reviewing your credit report information regularly. But, don't get tricked into paying for this information, by law, it is available for free once per year by each credit reporting agency.

In fact, I just downloaded my free annual credit report from Equifax, Experian, and TransUnion and received my updated credit score for free from Credit Karma. Although we don't expect to be taking out any new credit, it's a comfort to know that our credit reports are accurate and that our credit score is stellar.

Review and Update Your Estate Plan

When major life changes occur, such as marriage, divorce, receiving an inheritance, the birth of a child, or retirement, it's important to review and update your estate plan. In fact, every three to five years, it's advisable to meet with an estate planning attorney to ensure that your will, trust, powers of attorney, and health care directives are in order.

If you don't have a trust set up, talk with an estate planning attorney to discuss its benefits.

By including estate planning in the year-end financial checklist, it won't fall by the wayside. With even the most diligent household financial managers, it's easy to get waylaid by big events and allow these personal housekeeping chores to get pushed aside. Yet, there are major consequences to delaying this task, as once a death occurs, there's no recourse for an incomplete plan.

Review and Update Your Insurance

It's important to understand that insurance is there to pay for events that would cause financial hardship. This is another financial checklist item to review annually or at least biannually.

Most adults have life, medical, vehicle, home, disability, and umbrella insurance. Each of these coverages is purchased to guard against financial ruin in the event of a catastrophe. With that in mind, there are several issues to explore when reviewing insurance:

- Is the coverage I have adequate? Do I need more or less insurance? With an older car, some consumers drop collision coverage. If you have a new baby, now might be the time to buy a term life insurance policy.
- Is the price I'm paying for coverage reasonable? Although time-consuming, sometimes it's worth price shopping for insurance, as it is a commodity product sold at various price points.
- Do I need to add or subtract insurance policies? In California, an earthquake policy is important. As one's wealth grows, an umbrella policy should also be added.

Conduct a Personal Tax Audit

With an understanding of the tax code, one can cut tax payments to the legal minimum. Every year, it's important to visit **IRS.gov** to examine ways to keep taxes at bay. Make a call to your tax accountant to discuss strategies to lower taxes and inform him or her of any changes in income that may have occurred. But, don't depend solely on your tax preparer.

As with all financial matters, it's important to educate oneself about the tax code. Look for changes in the tax law on your own. Examine last year's tax return for ways to minimize taxes this year.

Use the IRS **tax withholding estimator** to make sure the appropriate tax amount is withheld from your paycheck. Determine whether to take the standard deduction or to itemize. Comb the 1040, schedule C (for self-employment income), schedule B, and D for opportunities to save on taxes.

For itemizers, doing a thorough cleaning and donating of unneeded items to charity several times per year can result in hundreds or thousands of tax savings for those who itemize. Remember to get a receipt and complete IRS form 8283 for all donations of clothes and household items to reputable charities. If you take the standard deduction one year, consider bunching charitable contributions into the next when it might make sense to itemize.

Pay the estimate of additional tax due, now. The tax-loss harvesting strategy will be covered in the investing section.

Review FSA (Flexible Savings Account) and HSA (Health Savings Account)

Although both of these accounts are set up to help with medical payments, typically, payments to an FSA must be used by the end of the year, or the account balance is forfeited. Spend the remaining FSA amount to avoid losing the funds at year-end.

A health savings account offers another opportunity to save on health care costs. This account is available to participants with a high deductible health insurance plan. Although designed to allow for **tax savings** and capital appreciation to pay for medical expenses, the HSA can also be used as another retirement savings vehicle for those who can afford to pay for health-related expenses from other sources.

If you have an HSA, make sure that you've contributed the maximum available by law each year to maximize tax savings and potential retirement benefits. In 2019, the maximum individual contribution is $3,500, while for families, it is $7,000.

Investigate retirement plan contributions to 401(k) and IRAs

Another government retirement planning gift is the ability to deduct contributions and defer taxes for amounts contributed to a traditional IRA and 401(k) account. While contributions to a Roth IRA are made with after-tax dollars, withdrawals are tax-free.

While in the account, all assets grow tax-deferred for 401(k) and traditional IRAs and tax-free for Roth IRAs. By contributing the maximum amount allowable by law every year, it's possible to amass $1 million or more efficiently.

Following is a chart that outlines retirement plan contribution maximums, IRA deductibility phaseout ranges, and eligibility limits for contributing to a Roth IRA.

RETIREMENT PLAN CONTRIBUTION LIMITS AND ELIGIBILITY REQUIREMENTS

Maximum Workplace Retirement Contribution Amounts	**2019**
401(K), 403(b), most 457 plans, and Federal Thrift Savings Plan	$19,000
Catch up contributions for those age 50 and older	$6,000

Maximum IRA Contribution Limits	
Traditional and Roth IRAs for those under age 50	$6,000
Catch up contributions for those age 50 and older	$1,000
Annual employer limit for 401(k)-type plans, SEP IRAs and solo 401(k)s	$56,000
Annual contribution limits for SIMPLE plans	$13,000
Catch up contributions for those age 50 and older	$3,000

Adjusted gross income phaseout range of IRA deductibility

Single and contributing to a workplace retirement plan	$64,000 to $74,000
Married filing jointly and contributing to a workplace retirement plan	$103,000 to $123,000

Eligibility to make Roth Contributions – based upon income and tax filing status

Single, head of household, or married filing separately	$122,000 full amount – $136.999 a reduced amount
Married filing separately and you lived with your spouse at least part of the year	$10,000
Married filing jointly or qualified widow(er)	$193,000 full amount – $207,00 a reduced amount

Review 401(k) contributions and increase if possible until maximum 2019 limit is met. If eligible, also contribute to a Roth or Traditional IRA.

The retirement plan payments, especially contributed when younger, compound dramatically over time, making it easier to save for retirement. In fact, to reach $1 million at age 65, a 24-year-old would need to contribute approximately $352 per month annually with a 7% annualized return. In most cases, one's employer picks up a portion of the total amount. Whereas start contributing to a retirement account at age 40 and it requires more than three times as much to reach $1 million by age 65.*

Consider a Back Door Roth for Additional Retirement Savings

For higher-income earners, looking for ways to increase tax-advantaged retirement savings, consider the back door Roth. This strategy sidesteps the Roth contribution income limits. A backdoor Roth IRA is a way for people with high AGI to circumvent the Roth's income limits.

For 2019, only those with adjusted grow incomes below $203,000 (married filing jointly) or $137,000 (single) may contribute to a Roth IRA. Individuals who earn more than the allowable limit for a Roth IRA contribution can contribute to a traditional IRA up to $6,000 or $7,000 for those over age 50.

Here's how the Back Door Roth works. First, contribute to an existing or new traditional IRA. Then, convert the traditional IRA to a Roth IRA by completing the paperwork from the investment custodian. If the traditional IRA contribution was pre-tax, then the conversion requires the payment of income taxes.

Scrutinize Your Investment Portfolio

Review your financial accounts and investments. Over time it's easy to wind up with a mix of accounts and individual funds, stocks, and bonds. Take a few minutes to examine your investment goals and compare them with your personal financial situation.

If there are duplicate IRA's, or old 401(k) accounts, now might be the time to consolidate. Rolling over a 401(k) into an existing IRA can simplify investment management and increase the number of available investments.

Consider selling funds or stocks with small positions and reinvesting the proceeds in larger holdings. But, if assets are owned in taxable accounts, it's important to weigh the tax impact of asset sales.

If you're not comfortable doing these tasks on your own, it might be wise to choose a financial advisor for help. As investors age, it's important to consider the trade-off between DIY investing and freeing up time for life by turning over financial assets for professional management.

Save Money by Tax-Loss Harvesting

Every seasoned investor knows that all investments aren't winners. There's a way to turn losing investments into tax savings. Tax-loss harvesting is a strategy to lower taxes and improve your investment portfolio for the future. The strategy only works in taxable accounts because all investments in retirement accounts are shielded from taxes.

First, look for losses in your investment portfolio.

Sell the losing position. The amount of the loss is used to offset the gains of other investments. The IRS rule requires that long term losses must be used to offset long term gains, and short term losses offset short term gains. After that, remaining losses can be used to reduce up to $3,000 of ordinary income, with the remainder rolled over to be used in future years.

Make sure to avoid the "wash sale rule," which disallows the purchase of the same or a "substantially identical" security within 30 days before or after the sale; then, the loss is disallowed on one's tax for 12. Satisfy your Required Minimum Distribution

Calculate Your Net Worth

Net worth is the amount that remains after subtracting your debts and liabilities from assets. Assets include investment, retirement, and savings accounts, as well as home or other real estate equity. Liabilities are the outstanding balances on all debt, including mortgages, student loans, and credit cards.

The goal is to increase net worth every year. Tracking this figure, either by hand or with investment software, annually measures one's financial progress. If it's going up, then your finances are improving.

Satisfy your Required Minimum Distribution

If you own an Inherited IRA and/or if you are over the age of 70.5, you likely have to satisfy the annual Required Minimum Distributions. Simply put, "your required minimum distribution is the minimum amount you must withdraw from your account each year." (IRS)

- You can withdraw more than the minimum required amount.

- Your withdrawals will be included in your taxable income except for any part that was taxed before (your basis) or that can be received tax-free (such as qualified distributions from designated Roth accounts).

You are eligible if you own assets in an IRA, SIMPLE IRA, SEP IRA, or retirement plan account and if you are over the age of 70.5. For more information, reference the IRS worksheets to determine the amount needed.

By completing a year-end financial planning checklist, you can rest assured that you're in sound financial health and moving towards your goals.

** To reach $1,000,000 by age 65, a 40-year-old must contribute roughly $1,227, assuming a 7% rate of return.*