Financial Planning: 11 Tips For a Successful New Year

By: Exchange Capital Management
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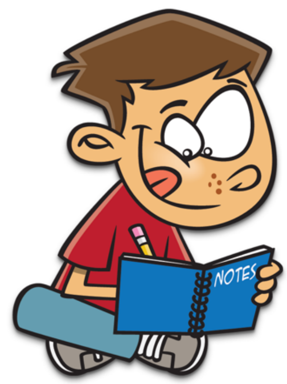

As the holiday chaos winds down, now is the perfect time to shift your focus to the upcoming year. Amidst the buzz of New Year resolutions and the return to day-to-day routines, there's an opportunity to pause and review your finances for the year to come. This ensures you're setting yourself up for success in 2024.

1. Review Your Health Care Plan

Come January, it's not just the start of a new year—it's a reset for your healthcare plan. If you haven't made changes in the past year, you'll likely stick with your existing plan. But all the payments you made towards your deductible in the previous year are now reset. If you reached your deductible last year, you might need to pay more for healthcare at the beginning of this year until you reach that deductible again.

If you changed your healthcare plan, it's time to do some research and understand how your new plan operates. If you anticipate needing specific procedures or medications, check if they're covered and get an idea of the potential costs.

It's helpful to give your healthcare plan a quick once-over every year–know its offerings, be familiar with your deductible, and keep an eye on the maximum out-of-pocket costs. Even if you don't foresee reaching your deductible or facing high out-of-pocket expenses, having these details on hand will help you manage your healthcare more effectively throughout the year.

2. Health Savings Account (HSA) Contributions

Many things refresh on January 1st, but your HSA contributions aren't one of them. You can continue making contributions to these accounts until the tax-filing year's end, usually April 15th.

If you were regularly contributing through your payroll, check to ensure you have reached the contribution limit. If there's still room, it might be a good idea to max it out before tax season. If you intend to keep contributing until April 15th for the prior tax year, going through your employer may be difficult. Check with HR if this is an option; however, it may be easier to make independent contributions outside of your employer.

Here are the contribution limits to keep in mind:

Health Savings Account Annual Contribution Limits

	2023	2024
Individual Health Coverage	$3,850	$4,150
Family Health Care Coverage	$7,750	$8,300
Additional Catch-Up Contribution (If Age 55 or Older)	$1,000	$1,000

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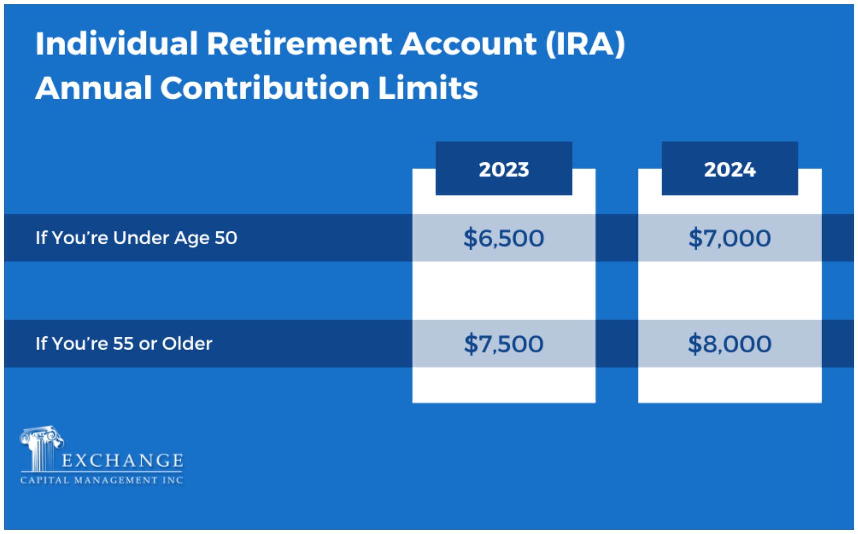
3. Individual Retirement Account (IRA) Contributions

Similar to an HSA, there's no requirement to stop contributing to your IRAs by year-end. The IRA contribution deadline also extends until April 15th, aligning with the tax year.

Some aim to max out their contributions before the new year begins for a fresh start. However, if you haven't hit the maximum for the previous year and want to keep contributing, then just make sure you're allocating your deposits properly.

You can't contribute an unlimited amount to your IRAs each year. There's a maximum limit that applies to the aggregate deposit across all your IRAs—Traditional, Roth, and Backdoor Roth Contributions combined. It's important not to go over this limit, regardless of the year you're allocating the money to. Going over can lead to penalties and extra paperwork.



4. Required Minimum Distributions (RMDs)

Your RMD is determined by dividing your year-end balance by your life expectancy factor (two things that are certain to change, so it's pretty safe to say your required distribution will change). Take a peek at what the new required withdrawal is so you don't make any costly mistakes—forgetting to withdraw the correct amount of money can lead to sizable penalties. The calculation of RMDs for inherited IRAs is vastly different. If you happen to have an inherited IRA, check out these rules.

With the market always on the move, your RMD will be different from the prior year. If you're used to withdrawing $5,000 per month to cover your required distribution, you may find that the amount is increasing to $5,500. Tweak your withdrawal to match the updated requirement and adjust your withholding for taxes if needed.

5. Are Any New Laws Set To Take Effect?

Legislation changes happen all the time and it's exhausting to keep up with new and expiring laws. It's even more confusing because some laws have provisions with future start dates (whether it be one year or several years from now).

One of the biggest changes you'll see this year is the SECURE 2.0 Act. Take a look at our recent blog to see all the provisions that will start in 2024.

6. Is This a Milestone Year?

Predicting the future is tricky, but some life events are certain. Are you hitting the milestone of age 59 ½, 65, 70 ½, or 73? Here’s what happens when you reach these milestone years:

- 59 ½ – you can now pull from retirement accounts penalty-free.
- 65 – you become Medicare eligible. Curious about enrollment and what plans are available? Check out our article.
- 70 ½ – you can start taking Qualified Charitable Distributions (QCDs) from your IRA. This may be a tax-savvy method for charitable donations.
- 73 – the current Required Minimum Distribution (RMD) age. If you’re turning 73 this year, start preparing for these withdrawals and how they can impact taxes.

Additionally, consider personal milestones. Are you changing your employment status? Is your daughter heading off to college, or is your son tying the knot this year? These significant life events often come with additional financial commitments, and it's vital to understand how they can impact the year ahead.

7. Are Any Contracts/Agreements Starting or Ending This Year?

Do you have car, student, and/or mortgage loans starting or stopping in 2024? Any of these could lead to sizable changes in monthly expenses and are important to account for.

Are you buying into or selling out of business ownership? This can often be one of the most significant changes in someone's life, both personally and financially. Make sure you have trustworthy professionals to guide you through the years to come.

Onto more personal obligations. If you've been subject to alimony payments, is the obligation set to conclude in 2024? Similarly, check for any changes in child support commitments. Each of these has a significant impact on personal cash flow.

8. Should You Save More?

If you’re still wondering what to do with your end-of-year raise and/or bonus–we have a thought. Instead of splurging on lifestyle upgrades, consider this: as you earn more, save more. It's easy to get caught up in the excitement of a higher income and start spending more, falling prey to lifestyle creep. To avoid this, think about increasing your 401(k) contributions or putting more money into your investment accounts as you earn more.

9. Should You Donate Early in the Year?

Most people donate around the end of the year (while the giving spirit is in the air). However, some may benefit from pushing their donations to the new year. If you're curious about donation bunching–check out our recent article. If you've already decided this is the strategy for you, then don't forget to donate to your favorite charity early in the year.

10. Do You Need To Change Your Tax Withholdings?

The answer to this question can be hard to nail down right at the beginning of the year. Many people don't know what to do with their withholdings until tax season. But if you know you need to change it, it's best to get a head start the second the new year begins. Sooner is always better. Failing to make these adjustments might lead to either over-withholding or under-withholding taxes, potentially affecting the final amount you owe/receive when the next tax season rolls around.

11. Are You Ready for Tax Season?

Speaking of which, tax season is right around the corner. With that being said, the earlier you prepare, the easier you'll make the process for everyone (you, your accountant, and your financial advisor will thank you).

In the next few months, keep your eye out for important documents. Whether it be social security, your job, or the bank, you need to be mindful that these documents are coming. Pay close attention to your mail and emails. If you use an accountant, it may be worth proactively reaching out to see if there is new information or forms that they need.

The Bottom Line

The arrival of a new year often motivates everyone to take charge and prepare for what lies ahead. Double-check your healthcare plan, monitor your retirement contributions, strategize for the year ahead, and be proactive on taxes. Follow these tips to lay the foundation for a successful financial year.