

## Ep92: Issues To Consider at the Start of the Year

March 10, 2022

**PATTI BRENNAN:** Patti Brennan: Hi there. Welcome to “The Patti Brennan Show.” Whether you have \$20 or \$20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives.

Today is part of the ongoing “Ask Patti Brennan” series, those frequently asked questions that we get all the time, and sometimes those rarely asked but really important questions that people don’t know to ask.

Today, we’re going to start off with those things that you should be considering at the beginning of every year. I think it’s important to recognize that we, as human beings, have this innate need to feel like we’re making progress.

Think back to when we were young. We were just first starting out with our first jobs. It was slow. It was hard. Most of us couldn’t save any money at all. If we did, it was \$25, \$50 at most. It’s slow.

It’s what Jim Collins talks about in *The Flywheel*. In the beginning, it’s just such a grind day after day. We get married and we have kids, and it’s pure chaos. This stuff tends to be put off to the wayside. You stick with those habits that you’ve developed.

Little by little, the wheel begins to turn, and then it turns again. Two turns become four, and four become eight. Then you really start making progress. You’ll really begin to see that compounding effect over time.

First and foremost, remember, it’s a process, not an event. Let’s first look back at last year and see what you did, what worked, and by the way, what didn’t work. What are we going to change? You get to make those decisions proactively.

Now, when we think about this year coming up, I think the first thing that you want to consider are those things, those life events, that might be occurring.

For example, you might have a child that’s going to college. How are you going to come up with that first tuition payment? You might need a car, or you might have an age milestone, such as age 50 when you’re allowed to start contributing more into your 401(k).



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Can you afford to make that catch-up contribution? Because, boy, that could make that wheel go even faster.

Those milestones, if you are approaching age 62 or 66, and Social Security now becomes an option, should you take it? You have all year to decide, and make sure that you're running the numbers and understanding all of the things that might influence the ultimate decision.

The next thing to take a look at is your cash flow. Again, you guys know me by now. I'm not a big fan of budgets. However, I do think it's important for you to define what your cash flow needs might be this year.

Look at what happened last year. We all set goals for ourselves. Let's say that you set a goal to save \$500 a month.

The question is, are you able to do it? If not, what happened? Was it a cash flow issue? Was there leakage? Did you end up spending that money on something else? Let's just evaluate and make a decision. Is that a realistic goal for you? If it is, what steps are you going to take to make sure that that happens? These are cash flow issues.

Also, as we approach April, you might be preparing your taxes. If you want to reduce your tax liability, the next question is, are you eligible for a pre-tax IRA? Even if you have access to a 401(k), you might be able to do a pre-tax IRA contribution as late as April 15th. If you are not eligible for that, that's OK. Make an after-tax IRA contribution.

By the way, you could also convert it into a Roth almost immediately. Now, you have that money growing tax-free for the rest of your retirement life. For those of you who have a stay-at-home spouse, consider doing a spousal IRA as well, because they need to save for retirement also.

Cash flow issues are very important. That's the first thing that I would look at, as we go into the beginning of this year and the rest of this year.

Other things might come up if you own a business. Are you looking at buying a business or selling a business? What are the tax implications if you do so? The same thing goes with a home or a vacation home. We've seen real estate go nuts over the past couple of years. What are the implications if that's something that you wanted to consider?

In addition to that, let's look at your investment portfolio. What's interesting about this is a lot of times people will hyper-focus on their portfolio without attention to some of these other areas that have a much greater impact.

Now, I don't want to take away from your portfolio. That's important as well. Review your



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investment performance and just take your own pulse in terms of what you're willing to tolerate in terms of volatility.

I think even more important than volatility is your risk capacity, and that's something that is measured. You measure your risk capacity. Think about it in terms of, "OK, not just if, but when the next bear market happens, are you going to be OK? If you just ride through it, will you be able to recover?"

That's important for those of you who might be retired because those bear markets impact you even more than it impacts the people who are still working. Review your investment performance, understand what happened, how you participated, and whatever happened last year, and make changes to rebalance accordingly.

Then we get into loans and debt. Are you a co-signer on someone else's loan? We often forget about that. We understand you might have a mortgage and car payments. You might be a co-signer on a child's car loan. It's important for you to double-check your own FICO score, your credit rating, because that comes in a lot more these days, and is very, very important.

Also, cybersecurity is really important. I will tell you that we have exercised a lot of productive paranoia when it comes to cybersecurity. I think that's important for you to do as well. If it doesn't look like you're going to need to borrow any money this year, consider freezing your credit. That way, nobody can get a loan in your name without you knowing about it.

Now, we also want to review your tax issues. This is something that you do all year long. It's not just something you do as you're gathering your tax forms and meeting with your accountant. As you do so, think about gifts to children or others, charitable contributions, and the opportunities that result accordingly.

Also, as we get into the year, you might want to consider doing a Roth conversion of existing IRA money or retirement plan money, or you may want to take gains on some of your portfolio if you're in a 12 percent tax bracket. This is something that you want to evaluate throughout the year.

There is also an insurance perspective - something that we don't always like to pay attention to. It's important, especially with climate change and what's been happening with a lot of these beach towns.

It's unfortunate and scary to think about the impact that flooding can have on a person's home or a second property. Review your property and casualty insurance with your agent to make sure that you have the best coverage for the least amount of money.



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That goes also for your life insurance and your disability insurance. As we get older, most disability insurance only goes till the age of 65.

If you're in your 60s and you're paying out disability insurance premiums, you might want to ask yourself if it's worth it to pay for disability coverage when it's unlikely that you're going to be working. Hopefully, you're not going to be working, but even if you are, it's only going to pay for the next five years or so.

Review your insurance coverages at some point. It's great to put it on that checklist and mark it off.

Last, but not least, would be your estate plan. This is another important area. We've had several podcasts about the changes in the estate tax law. I will tell you that that's probably not going to end.

This is the year to review your estate plan and understand the impact of tax law changes on what you've worked so hard to accumulate during your lifetime. Also, check your titling and your beneficiary designations.

We've had several meetings over the last month, where people's 401(k)s didn't have a beneficiary. That is an ugly situation. The tax impact of not having a beneficiary on a retirement plan is confiscatory. Don't let that happen. It's an easy thing to check. Make sure everything has a beneficiary.

When it comes to your will, just review it. You may not understand it. A lot of it is Greek, but spend the time, look at it. If you don't remember what the provisions meant or what you've decided, set up a meeting with your estate planning attorney and your advisor, and make sure that what you want to have happen for the people that you love actually does.

Those are some things to consider. We've got a whole list you can print out. If you'd like to have the list, please go to our website at [keyfinancialinc.com](http://keyfinancialinc.com). The list is what issues you should consider at the beginning of the year. It's a nice list, a checklist type format so that you can do these things on your own to continue to maintain your own financial security.

Remember, the goal of this is to help you protect, grow, and use your assets to live your very best life.

Thank you so much for joining me today. Thank you for this partnership as we work together to achieve that objective. Take care. Have a great day.



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