19 Year-End Financial and Investing Moves

By Charles Rotblut, CFA

Article Highlights

- These 19 steps cover personal finance, estate planning, investing, retirement and taxes. Though not every task will be applicable to every person, combined they represent a comprehensive list of actions to take.
- The changes implemented by the new tax law make it important to assess your tax liability before year's end, including the amounts withheld and the amounts paid in estimated taxes.
- Ensure required minimum distributions (RMDs) will be taken before year's end if retired. If working, ensure at least enough has been contributed to your workplace retirement plan to maximize your employer's matching contributions.

December is a timely occasion to review your tax liabilities, portfolio and finances.

There is still an opportunity to take actions that can impact both current-year and future-year tax liabilities. You can also adjust retirement allocations and ensure your portfolio is on track to meet your goals. At the same time, reviewing your overall financial picture now allows you to plan for the year ahead and make any needed adjustments.

In this article, we list items to review and give you actionable steps that can be taken.

General Financial and Estate Planning

We start with a few things that should be done at the end of each year regardless of age and wealth.

1. Review Beneficiary Information and Estate Documents

Check the beneficiary information on all accounts to ensure that it is current and correct. Also review wills, powers of attorney and any related documents. If there has been a change in status for either you or one of your beneficiaries, be sure to update the documents accordingly. It may make sense to have an attorney review your estate documents to ensure they reflect current law if you have moved to a different state and/or it has been several years since they were written or last reviewed.

At the same time, ask the financial institutions you work with if it is possible to list a trusted contact. A trusted contact is a person your advisers can contact if they have reason to suspect your cognitive abilities have been impaired. It is particularly valuable for older adults as protection against potential elder fraud.

2. Review and Freeze Your Credit Reports

Once a year, review your credit reports from the three major bureaus to identify any suspicious activity and/or incorrect information. Credit reports can be accessed, for free, through www.annualcreditreport.com.

For added protection, freeze your credit files. All three bureaus now allow you to freeze and unfreeze your reports for free. Freezing your credit reports makes it harder for fraudsters to commit identity theft. While under a freeze, your personal data cannot be reported to creditors and lenders except those you already have relationships with. See the box on page 33 for more details.

3. Review Spending and Budgets

Keeping track of where your money is going will help you take better control of it. This information will also assist with planning, such as determining how much you can realistically save and what you might need once in retirement.

Assess Your Tax Liabilities

The Tax Cuts and Jobs Act's (TCJA) broad scope impacted paychecks, deductions and exemptions. Given the changes, it would be prudent to project your 2018 tax liability now while you still have time to potentially act.

4. Check Your Paycheck Withholdings

Throughout most of 2018, the Internal Revenue Service (IRS) has been encouraging workers to use their withholding calculator (www.irs.gov/individuals/irs-withholding-calculator). The combination of altered tax brackets, the higher standard deduction and the repeal of the personal exemption changed how much tax individuals will owe.

In determining where to set the withholding allowance, the U.S. Treasury Department settled on $4,150 because, according to the Government Accountability Office, "There was no other value it tested that better achieved Treasury's goals." Whether a person is affected depends on their marital status and the age of their children. Middle-class married couples with two children under the age of 17 may have had too much withheld. Higher income earners with two children under the age of 17 and one job likely had too little withheld.

In either case, it may make sense to file a new W-4 with your employer to prevent a recurrence in 2019.

5. Review Estimated Payments

Those who made estimated tax payments should review their tax liabilities. The changes in the new tax law altered what is owed. Depending on the type and amount of income, the cap on state and local taxes and the larger standard deduction, taxes owed for 2018 may differ from 2017.

6. Match Expenses Against the Standard Deduction

The standard deduction was raised to $12,000 for an individual and $24,000 for a married couple that files a joint return for the 2018 tax year. This higher cap eliminates the ability for many taxpayers to itemize, but if you think you may be close, run the numbers. You may be able to accelerate the timing of certain deductible expenses into this calendar year.

7. Accelerate the Timing of Planned Medical Expenses

The minimum threshold for deducting medical expenses is 7.5% of adjusted gross income (AGI) in 2018; it will revert back to 10% of AGI in 2019 and thereafter. The lower threshold can make it advantageous to accelerate expenses whose timing is voluntary. Examples include prescription eyeglasses, hearing aids, dental work, prescription medicine and medical devices. See IRS Publication 502 for details on what can and cannot be deducted.

8. Plan for Charitable Donations

The higher standard deduction makes it harder to write off charitable contributions. One strategy taxpayers can follow is referred to as bunching. Bunching combines donations intended to be made over a period of years into a single year to maximize the odds of being deductible. Under this strategy, a taxpayer planning on donating, say $4,000 per year, would set aside the annual amount in 2018 and 2019 with the intent of making a larger $12,000 donation in 2020.

An alternative strategy would be to establish a donor-advised fund. These funds allow the contribution to be made in the current year, but the distribution of the funds to be made in future years. Such funds can help those who desire to continue providing a charity with a steadier stream of donations.

The higher standard deduction also makes qualified charitable donations (QCDs) a better option. See #12 in the "Retirement" section for more about them.

9. Assess Options for Both State and Local Taxes

Under the old tax law, it made sense to prepay 2019 property taxes. The new $10,000 cap for deducting state and local taxes (SALT) changes this. Those whose combined state and local taxes hit or exceed the limit will not benefit from prepaying taxes. Calculate your total state and local tax liabilities before deciding to prepay property taxes.

10. Determine Fund Distributions

During the final few months of each year, mutual funds, closed-end funds and exchange-traded funds (ETFs) may make distributions to their shareholders. These are realized capital gains, dividend income and interest income realized by the fund. Though realized capital gains can be offset by realized capital losses, a fund may not have enough losses to fully offset the gains. This can particularly be the case when there has been a long bull market.

When a distribution is received for fund shares held in a taxable account, the dollar value of the distribution is taxable even if the distribution is automatically reinvested and/or the shares have only been held for a short period.

Finding out what these distributions are before the end of the calendar year allows you to plan for the tax liability and potentially take other actions to limit their impact.

Retirement

In addition to reviewing taxes, there are a few tasks that those who are retired need to be sure are done before the end of the year.

11. Take RMDs

Those who turned or were older than 70½ in 2018 must take required minimum distributions (RMDs) from their traditional IRA, SEP IRA, 401(k) and similar tax-deferred retirement accounts. RMDs are also required to be taken from Roth 401(k) accounts, but not Roth IRAs.

The entire RMD must be taken no later than December 31. (Those who turned 70½ in 2018 have the option of delaying their 2018 RMD until April 1, 2019.) Failure to do so results in a steep penalty. RMDs are calculated separately for each applicable account, but the total distribution can be withdrawn from a

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Freezing your credit report prevents it from being pulled when an application for a loan, a credit card or any other transaction requiring a credit check is made. The Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 required credit bureaus to allow consumers to freeze their credit reports at no cost.

Equifax: www.equifax.com/personal/credit-report-services

Experian: www.experian.com/freeze/center.html

Transunion: www.transunion.com/credit-freeze

When freezing a credit report, you will be asked to set up a username and a password and potentially may be given a PIN number. You will need these to unfreeze your credit report when applying for new credit. When applying, you can ask which credit bureau the report will be pulled from so that only that report is unfrozen. After the report has been pulled, refreeze the report.

single account.

RMDs are calculated separately for each person based on accounts they individually own. Most brokers and fund companies will calculate the RMDs each year. Many will also allow you to automatically take the RMDs at a specified interval (monthly, annually, etc.).

12. Make Qualified Charitable Donations

The higher standard deduction makes qualified charitable donations (QCDs) more attractive. A QCD is a donation made to a qualified charity directly from an IRA.

QCDs offset required minimum distributions dollar for dollar up to $100,000 for those 70½ and older. Thus, the full tax benefit of the donation is effectively realized because it reduces reported income dollar for dollar.

In contrast, in order to deduct charitable donations from taxable dollars, a married couple must have total deductions greater than the $24,000 standard deduction for 2018. (An additional $1,300 deduction can be claimed by those aged 65 or older and married or a qualifying widow and can also be claimed by those who are blind.)

13. Calculate Medicare MAGI

Medicare premiums are based on modified adjusted gross income (MAGI) from two calendar years prior. In this case, MAGI is defined as your adjusted gross income from your tax statement plus tax-exempt interest.

Many married and single retirees will fall under the threshold for paying an additional charge above the standard premium. The initial breakpoints for 2019 are 2017 MAGI of $170,000 for married couples filing joint returns and $85,000 for single filers. Those close to the thresholds may be able reduce their 2020 and 2021 premiums (based on 2018 and 2019 MAGI, respectively) by delaying Roth IRA conversions. *Revised 12/17/2018.*

14. Calculate Withdrawals for Next Year

Those using a systematic approach to withdrawals, such as the 4% rule, should determine how much they plan to withdraw next year. This calculation involves increasing the amount taken out last year by the rate of inflation. The Bureau of Labor Statistics publishes inflation data monthly (www.bls.gov/cpi). The year-over-year change in the consumer price index as of the end of October 2018 was 2.5%.

When determining withdrawal rates, take the health of the overall stock market and the returns realized by your portfolio into consideration. A study by Vanguard found that the ability to reduce withdrawals following down years in the market has a significant impact on portfolio survivability. It can also help to take withdrawals out of a cash allocation instead of stocks following a down year.

15. Retirees and Those Near Retirement: Manage Shorter-Term Spending Bucket

Having up to four or five years of cash and cash equivalents set aside can provide a buffer against down markets. These shorter-term savings will help you avoid selling stocks when their prices are depressed and give your portfolio more time to recover.

These buckets should be replenished annually when the market is near its high. Those nearing retirement should start to fund these buckets in advance, even four to five years in advance, in case a bear market strikes very early in retirement.

Saving and Investing

Assessing where you are at financially now gives you time to act and to set up planned actions before the new year starts.

16. Maximize Retirement Contributions

Total up the 2018 contributions made to your retirement accounts. These accounts may include traditional IRAs, Roth IRAs and 401(k) plans. Your goal, when financially possible, is to maximize the contributions to each account. If this is not possible, ensure the amount contributed to an employer-sponsored plan [e.g., a 401(k) plan, a 403(b) plan, etc.] is at least large enough to maximize any matching contribution offered.

Year-End Financial Checklist

Among the key financial and investing tasks to take care of before year end are:

Access Tax Liabilities: The Tax Cuts and Jobs Act included many changes that will alter what is owed for 2018 relative to 2017. Those who are still working should check their withholding amounts using the Internal Revenue Service's withholding calculator (www.irs.gov/individuals/irs-withholding-calculator). Retirees should check their estimated payments to ensure they haven't paid too little or too much.

Take RMDs: Those who turned or were older than 70½ in 2018 must take required minimum distributions (RMDs) from eligible retirement accounts [including, but not limited to, traditional IRAs, 401(k) plans and Roth 401(k) plans]. If you turned 70½ this year, you have the option of postponing your RMD until April 1, 2019.

Maximize Retirement Contributions: Contributions to traditional and Roth IRAs can be made up until April 15, 2019, for the 2018 tax year. If participating in a 401(k) plan, be sure to contribute enough to maximize any matching contribution offered by your employer.

Convert to a Roth IRA: The reduced tax rates make it cheaper to do a Roth IRA conversion this year relative to last year. Conversions count as taxable income; be careful not to convert so much that you are bumped into a higher tax bracket for 2018 and/or trigger higher Medicare premiums in 2020 (which will be based on your 2018 modified income).

Check Your Allocations: Market fluctuations and varying returns for different asset classes can require periodic adjustments to your portfolio's allocation.

Next, plan out how much you will contribute next year. When doing so, think in terms of pay periods, not total amounts. Saving an extra $1,000 for retirement, for instance, may sound like a big hurdle, but it doesn't seem as intimidating when viewed as an additional $41.67 contribution per pay period for someone who is paid twice a month (24 pay periods) and $38.46 for someone who is paid every other week (26 pay periods). These numbers are pretax; the out-of-pocket cost for such contributions made to a traditional 401(k) plan will be reduced by your marginal tax rate.

Once the amount is determined, take advantage of automatic contributions. Let your human resources department know your planned 401(k) contribution for 2019 as soon as you receive your final paycheck for 2018. If contributing to a traditional or Roth IRA, set up automatic deposits to coincide with when you get paid.

How much can you set aside into a retirement account? For the 2018 tax year, up to $5,500 can be contributed to a traditional IRA and a Roth IRA. Those age 50 and older can contribute up to $1,000 extra in catch-up contributions. The maximum for 401(k) plan/Roth 401(k) plan or a similar type of employer-sponsored plan is $18,500 with an additional $6,000 catch-up contribution for those age 50 or older.

17. Convert to a Roth IRA

Converting a traditional IRA or 401(k) assets to a Roth IRA is generally a taxable event in the calendar year it occurs. Roth IRA conversions increase ordinary income and are taxed at the account owner's marginal rate. The TCJA made it cheaper to convert to a Roth IRA by reducing marginal rates and widening the respective tax brackets.

By converting to a Roth IRA, the tax is paid upfront instead of later when withdrawals are taken. Roth IRAs also are not subject to the RMD rules. This means the dollars converted (or contributed) do not have to be withdrawn until the account owner chooses to do so (distributions are allowed following a five-year window and after the account owner has reached age 59½).

There are a few considerations to keep in mind. If you are certain you will fall into a lower tax bracket in the future, it can make sense to hold off on converting. A general rule of thumb is to ensure conversions are not so large that they bump you into a higher tax bracket. Those in or near retirement should calculate the impact a conversion will have on future Medicare premiums. Medicare premiums are based on modified adjusted gross income plus tax-exempt interest income from two calendar years prior.

18. Check Your Allocation

Market fluctuations and different returns for various asset classes can cause your asset allocation to change over time if no rebalancing is done. As such, it is a good idea to check it to ensure your allocations to the major asset classes and categories (e.g., large-cap stocks, small-cap stocks, bonds, cash, etc.) remain fairly close to your target. If they are more than five or 10 full percentage points off target, rebalance (adjust) your portfolio back to target.

19. Fund a 529 Plan

These plans allow parents and other relatives to contribute to a child's college savings. Donations can be made up $15,000 in 2018 or up to $75,000 in lieu of five years of gifting without triggering the gift tax. The limits are doubled for married couples. Individual state limits may differ. ➤

Charles Rotblut, CFA, is a vice president at AAII and editor of the AAII Journal. Find out more at www.aaii.com/authors/charles-rotblut and follow him on Twitter at twitter.com/CharlesRAAII. Rotblut recently spoke at the AAII Investor Conference in Las Vegas; audio recordings of sessions are available at www.aaii.com/store/conferenceaudio.