Nicholson Financial Services

Did You Know...?

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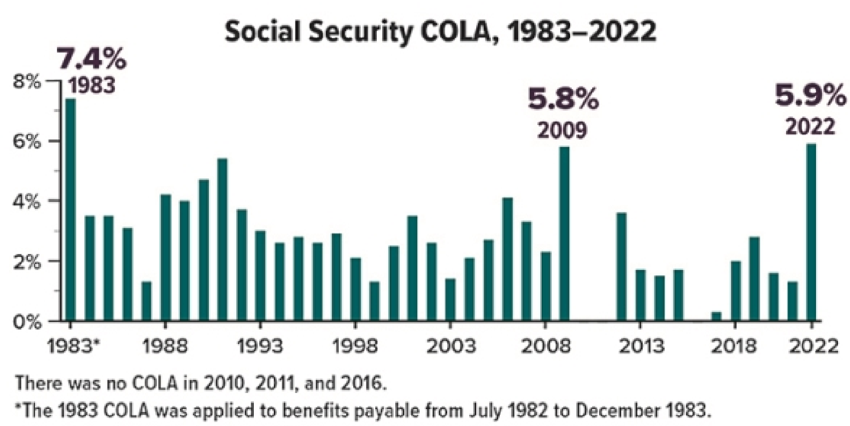
RAYMOND JAMES®

I know, it is a little late for a year-end newsletter. As many of you know, I caught Covid in January (shortly after getting over the Flu) and missed a week of work. It is amazing how that has set me back in the past few weeks. In short, I did not have time to write my article about *Time* . How is that for irony? 2021 ended on a positive note with Covid starting to decline around the world. However, the new year has brought new concerns. Inflation, and the likelihood of interest rate hikes to fend it off, concerned investors in January. I am sure you were as shocked as I was to see Russia invade Ukraine. Although I have a lot of issues with social media, it has in many ways brought the world closer together. Russia's invasion and the plight of the Ukrainian people is broadcast for everyone to see. Much of the world has already turned against Russia, and I hope many more countries will follow. We can only hope that this crisis ends peacefully sooner than later.

Big Boost for Social Security Payments

The Social Security cost-of-living adjustment (COLA) for 2022 is 5.9%, the largest increase since 1983. The COLA applies to December 2021 benefits, payable in January 2022. The amount is based on the increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from Q3 of the last year a COLA was determined to Q3 of the current year (in this case, Q3 2020 to Q3 2021).

Despite these annual adjustments for inflation, a recent study found that the buying power of Social Security benefits declined by 30% from 2000 to early 2021, in part because the CPI-W is weighted more heavily toward items purchased by younger workers than by Social Security beneficiaries.



Sources: Social Security Administration, 2021; The Senior Citizens League, August 11, 2021

Time

“All we have to decide is what to do with the time that is given us.” — J.R.R. Tolkien, *The Fellowship of the Ring*

I have always been amazed by the passing of time. Have you ever remembered an event that seemed like it happened ages ago, but at the same time recall something from the same period that feels like it was yesterday? Anyone who has raised children knows exactly what I mean. My son turned 18 in October, and it seems like it happened so quickly. We are at the point where we are waiting on college decisions and all the years of planning for this moment now feel like they have flown by. I swear, we were teaching him how to ride a bike just the other day. Over the years a few clients who are (were) older than me have told me that the older you get, the faster time seems to go by. I hate to say it, but I think that is true.

Time is indeed a precious commodity and is especially so in retirement planning. When I have been asked to give advice about the most important aspects of investing for retirement, the top of the list is clear. Start early. I can’t emphasize how important that advice is to share with your children and grandchildren. Teach them to save and invest for their future as early as possible. Throughout my career, I have worked with people who did not start early. They would be referred to me in their early to mid-50’s, having little to modest assets, and planning to retire in ten years. Because there was such little time left to their goal, they would either need to invest large amounts of money or come to realize that their goal may not be achieved. In some cases, they would have to retire later or reduce their spending goal. Those are difficult conversations to have, but necessary. Planning for retirement is similar to a professional athlete preparing for their sport. Those athletes do not start training a few weeks before. They prepare for years.

Sadly, there are also those events when time seems to stand still. As I write this Russia has invaded Ukraine and I can’t help but feel empathy for the civilians there. I can’t imagine what it must be like for those families huddling in a basement or subway waiting for shelling to end. A minute must seem like an hour. For many people there, time is stopping altogether. It is tragic and wrong, and I hope this conflict ends quickly.

Early last year, I wrote an article where I listed some of my concerns about the markets that were making me become more cautious. Even though there were reasons for concern, markets can continue to get more overvalued until there is a catalyst to start a period of profit taking. So far in 2021 that seems to have come to pass. Stocks had already been weak to start the year as inflation increased the likelihood of near-term interest rate hikes. The war in Ukraine has pushed the markets into correction territory. I believe that has been overdue and that the pullback is healthy for the markets in the long run.

An update on some of the bullet points in the 2021 article:

* The forward-looking P/E ratio for the S&P 500 has declined to more reasonable levels due to the recent pullback in the market and strong corporate earnings. On the whole, stocks are cheaper than a year ago.

* The economy is all about confidence, and the vaccines provided many people with enough to get back to living and working as they did before the outbreak.

* The low interest rates, printing money and asset purchases by the Federal Reserve caused a liquidity driven stock rally but are also partially to blame for the inflation we are now seeing. Expect all three of those to start tapering off this year. In my opinion, stocks will once again be judged on their own merits, rather than moving because there was so much cash with no better place to go.

I will end this article with one important thing I have learned about time: spend as much of it as you can with those you love and care about because none of us know when time will stop for us.

Key Retirement and Tax Numbers for 2022

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2022.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2022 is $16,000, up from $15,000 in 2021.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2022 is $12,060,000, up from $11,700,000 in 2021.

Standard Deduction

Taxpayers can generally choose to itemize certain deductions or claim a standard deduction on their federal income tax returns. In 2022, the standard deduction is:

- $12,950 (up from $12,550 in 2021) for single filers or married individuals filing separate returns
- $25,900 (up from $25,100 in 2021) for married joint filers
- $19,400 (up from $18,800 in 2021) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2022 is:

- $1,750 (up from $1,700 in 2021) for single filers and heads of household
- $1,400 (up from $1,350 in 2021) for all other filing statuses

Special rules apply for those who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,000 in 2022 (the same as in 2021), with individuals age 50 or older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges *(see chart).* For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges *(see chart).* The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to a Roth IRA

	2021	2022
Single/Head of household	$125,000–$140,000	$129,000–$144,000
Married filing jointly	$198,000–$208,000	$204,000–$214,000
Married filing separately	$0–$10,000	$0–$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2021	2022
Single/Head of household	$66,000–$76,000	$68,000–$78,000
Married filing jointly	$105,000–$125,000	$109,000–$129,000

Note: *The 2022 phaseout range is $204,000–$214,000 (up from $198,000–$208,000 in 2021) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0–$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.*

Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $20,500 in compensation in 2022 (up from $19,500 in 2021); employees age 50 or older can defer up to an additional $6,500 in 2022 (the same as in 2021).
- Employees participating in a SIMPLE retirement plan can defer up to $14,000 in 2022 (up from $13,500 in 2021), and employees age 50 or older can defer up to an additional $3,000 in 2022 (the same as in 2021).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,300 in 2022 (up from $2,200 in 2021) is taxed using the parents' tax rates.

Four Basic Principles of Financial Literacy

It is widely recognized that financial literacy impacts a person's overall economic success. In fact, studies have shown that individuals who are exposed to economic and financial education at an early age are more likely to exhibit positive financial behaviors when they are older (e.g., maintaining high credit scores, accumulating wealth). As a result, many states are requiring high school students to take a course in either economics or personal finance before they graduate.[1]

Whether you are just starting out and beginning to manage your own finances or simply want to stay on top of your current financial situation, it's important to always keep these basic principles of financial literacy in mind.

1. Create a budget and stick with it. A budget helps you stay on track with your finances. Start by identifying your income and expenses. Next, compare the two totals to make sure you are spending less than you earn. Hopefully, your budget is still on the right track. If you find that your expenses outweigh your income, you'll need to make some adjustments. Finally, while straying from your budget from time to time is normal, once you have a solid budget in place it's important to try to stick with it.

2. Set financial goals. Setting goals is an important part of life, particularly when it comes to your finances. Short-term goals may include saving for a new car or building an emergency fund, while long-term goals may take more time to achieve (e.g., saving for a child's education or retirement). Over time, your personal or financial circumstances will most likely change, so you'll need to be ready to make adjustments and reprioritize your goals as needed.

3. Manage your credit and debt. Reducing debt is part of any healthy financial plan. Whether you have student loan debt, an auto loan, and/or a credit-card balance, you'll want to pay it down as quickly as possible. Start by tracking all of your balances while being mindful of interest rates and hidden fees. Next, optimize your repayments by paying off any high-interest debt first and/or taking advantage of a debt consolidation/refinancing program.

4. Protect yourself. When it comes to insurance coverage, are you adequately protected? Having the appropriate amount of insurance to help protect yourself against possible losses is an important part of any financial strategy. Your insurance needs will depend on your individual circumstances and can change over time. As a result, you'll want to make sure your coverage properly aligns with your income and family/personal circumstances.

1 2020 Survey of the States, Council for Economic Education