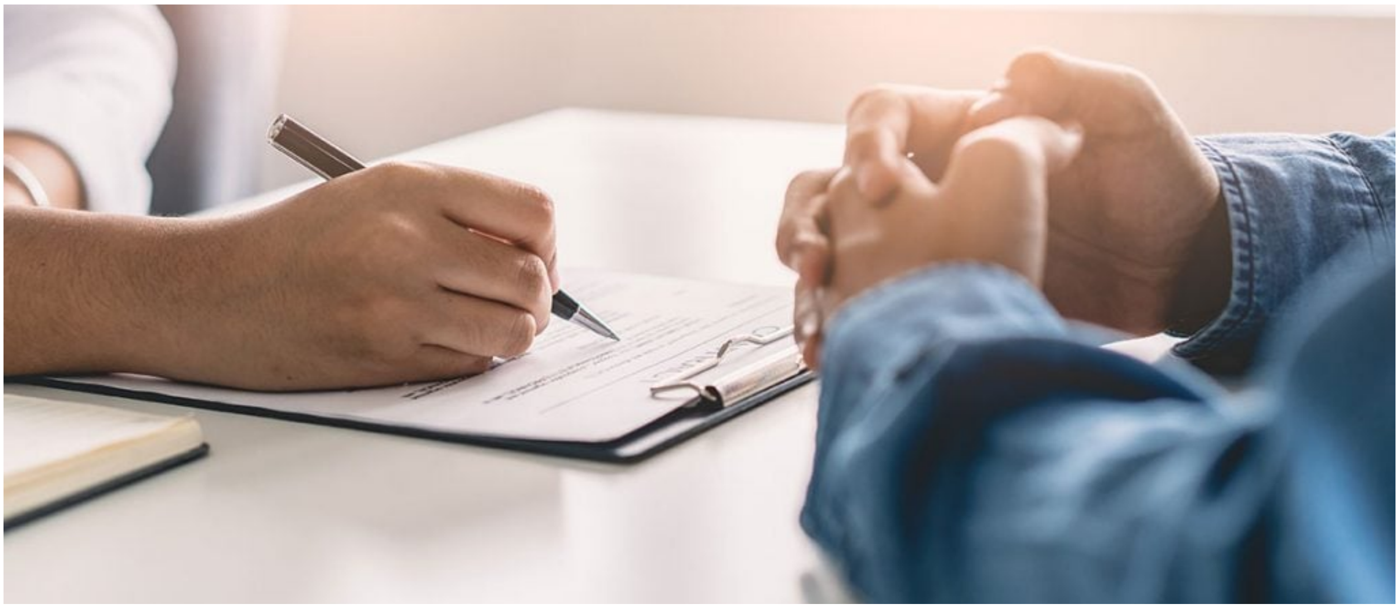
The Big Four: Year-End Planning

westwoodgroup.com/insight/the-big-four-year-end-tax-planning/



We have put our best thinking together to create a comprehensive year-end checklist of personal financial planning items that we believe every prudent investor should be considering and/or reviewing in preparation for the new year.

Below is what we have identified as "The Big Four" items included on our year-end checklist and why it is important that each of them is considered:

1. A review of your comprehensive financial plan

2. A review of your current insurance coverage

3. A review of your asset titling and beneficiary designation(s)

4. Some 2023 inflation adjustments

A comprehensive financial plan serves as a framework for organizing the pieces of your financial picture. With a financial plan in place, you'll be better able to focus on your goals and understand what it will take to reach them. It's important to remember that your financial plan is only as strong as the accuracy of the data that is input. This includes an accurate and detailed assessment of spending, expenses, assets and liabilities and agreed upon assumptions (i.e., inflation and rate of return expectations).

A comprehensive plan considers how the following entities might impact your overall financial picture:

- Investment Planning
- Tax Planning
- Estate Planning
- Retirement Planning
- Education Planning
- Insurance Planning

The financial planning process doesn't end once your initial plan has been created. Your plan should generally be reviewed at least once a year to make sure that it's up to date. It's also possible that you'll need to modify your plan due to changes in your personal circumstances or the economy. Here are some of the events that might trigger a review of your financial plan:

- Your goals or time horizons change
- You experience a life-changing event such as marriage, the birth of a child, health problems or a career change
- You have a specific or immediate financial planning need (e.g., drafting a will, managing a distribution from a retirement account, paying long-term care expenses)
- Your income or expenses substantially increase or decrease
- Your portfolio hasn't performed as expected
- You're affected by changes to the economy or tax laws

The second item on our checklist is a review of your current insurance coverage. This includes life insurance, health insurance, property and casualty insurance and other coverages that might be specific to your plan, like disability insurance or long-term care.

Our risk management options are generally to avoid risk, transfer risk or accept risk — insurance is a form of transferring risk.

If it were possible to completely avoid vulnerabilities and catastrophic risks to our financial lives, most, if not all of us, would choose that option. Since that is not realistic, we use insurance to lessen the likelihood of an adverse occurrence impeding our financial progress.

An annual assessment of risk and an agreed upon method of managing those risks provides peace of mind and increases the likelihood of a successful outcome.

Our third item relates to your estate plan.

An estate plan is drafted with an estate planning attorney and, among other things, directs how assets should be passed upon death.

Keep in mind that drafting an estate plan is only part of the process. To ensure that your drafted document is useful, you also need to consider how the plan that your attorney drafted affects the titling of your assets and/or the beneficiary(ies) named on your qualified accounts.

Additionally, some assets pass outside of the will as a matter of law. Therefore, it is incumbent on you (and your advisor) to ensure that your estate plan, the titling of your assets and your beneficiary designation(s) agree with one another.

The last item of “The Big Four” is touching on a few of the financial and tax-planning limits that are adjusted annually for inflation by the IRS. These limits dictate many different aspects of your financial plan, especially as it relates to retirement savings or IRA/401(k) contributions, the income limits that might impact those contributions, how much you can gift to individuals tax-free and the annual estate exemption amount.

For example: The contribution limit for employees who participate in 401(k), 403(b), most 457 plans and the federal government’s Thrift Savings Plan increased to $22,500, up from $20,500. And the limit on annual contributions to an IRA increased to $6,500, up from $6,000.

Also, the lifetime gift and estate tax exemption will increase to $12,920,000 per person; and the annual gift tax exclusion will rise to $17,000 per donee.

Increases by the IRS to these thresholds are common, but the increases for 2023 are notably larger compared to recent years. Specifically: The gift and estate tax exemption increase for 2022 was only an additional $360,000 per person compared to the additional $860,000 per person for 2023; and the prior annual gift tax exclusion amount of $16,000 only lasted for one year compared to the annual gift tax exclusion amount of $15,000 remaining in place from 2018 to 2021.

Again, most of these numbers are going to increase annually as an inflationary adjustment. Being aware of them can save you money in taxes, increase your retirement savings and better plan for your future.

At Westwood, we believe in a holistic approach to managing wealth and that annually reviewing these items is part of what will lead to a successful outcome.

Start with a comprehensive financial plan that is reviewed annually, manage the risk that might prevent you from accomplishing your established goals (through thorough estate and insurance planning) and use stated financial planning limits to strategize a path forward.

The information contained herein represents the views of Westwood Holdings Group, Inc. at a specific point in time and is based on information believed to be reliable. No representation or warranty is made concerning the accuracy or completeness of any data compiled herein. Any statements non-factual in nature constitute only current opinion, which is subject to change. Any statements concerning financial market trends are based on current market conditions, which will fluctuate. Past performance is not indicative of future results. All information provided herein is for informational purposes only and is not intended to be, and should not be interpreted as, an offer, solicitation, or recommendation to buy or sell or otherwise invest in any of the securities/sectors/countries that may be mentioned.