

# Personal Financial Update

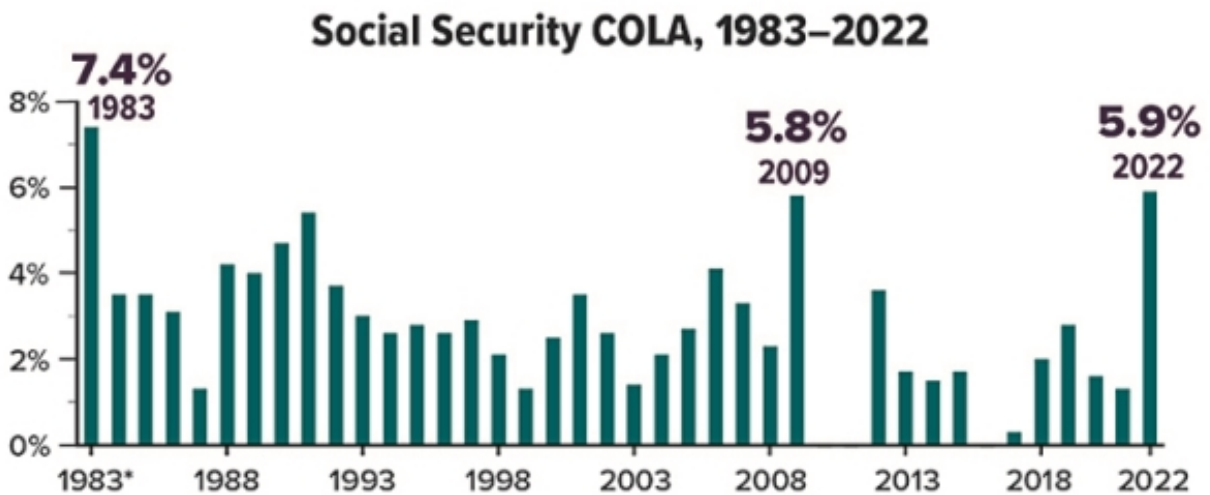


**Cynthia L. Keith, CFA**  
**Kevin T. Henry, CFP**  
**Oppenheimer & Co. Inc.**  
 5301 Wisconsin Ave, NW Ste 300 • Washington • DC • 20015  
 202-261-0769 • 877-999-9280  
 cynthia.keith@opco.com • www.oppenheimer.com/keithandhenry

## 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.



There was no COLA in 2010, 2011, and 2016.

\*The 1983 COLA was applied to benefits payable from July 1982 to December 1983.

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

# Are You a HENRY? Consider These Wealth-Building Strategies

HENRY is a catchy acronym for "high earner, not rich yet." It describes a demographic made up of young and often highly educated professionals with substantial incomes but little or no savings. HENRYs generally have enviable career prospects, but many of them feel financially stretched or may even live paycheck to paycheck for years, especially if they are working in cities with high living costs and/or facing large student loan payments.

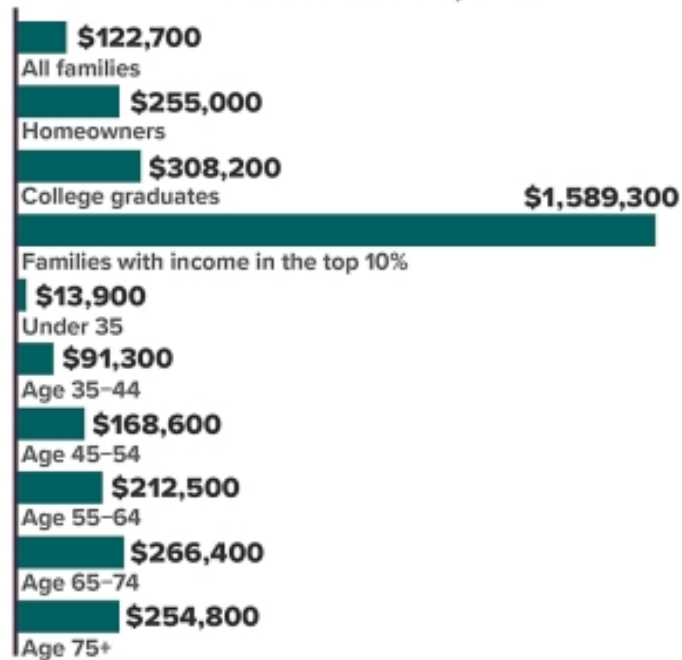
If this sounds like you, it may be time to shed your HENRY status for good and focus on growing wealth — even if it means making some temporary sacrifices. One simple metric that can be used to gauge your financial standing is your net worth, which is the total of your assets (what you own) minus your liabilities (what you owe).

---

## Wealth Snapshot

The net worth of U.S. families varies greatly depending on housing status, education, and income level. But it also takes time to build wealth, so there are significant differences by age.

Median net worth, 2019



Source: Federal Reserve, 2021

---

## Pay Attention to Your Spending

It's virtually impossible to increase your net worth if you don't live within your means. After studying long hours and working your way into a good-paying job, you may feel that you deserve to spend some money on fashionable clothes, the latest smartphone, a night on the town, or a relaxing vacation. However, if you

can't pay for most of your splurges without relying on credit — or wiping out your savings — then you may need to rein in your lifestyle. Budgeting software and/or smartphone apps can help you analyze your spending patterns and track your financial progress.

## Utilize a Workplace Retirement Plan

Making regular pre-tax contributions to a traditional 401(k) plan is a no-nonsense way to accumulate retirement assets, and it helps reduce your taxable income by the same amount. Experts recommend saving at least 10% of your income for future needs, but if that's not possible right away, start by contributing 3% to 6% of your salary to your retirement plan and elect to escalate your contribution level by 1% each year until you reach your target (or the contribution limit). The maximum you can contribute to a 401(k) plan in 2022 is \$20,500 (\$27,000 if you are age 50 or older).

Many companies will match part of employee contributions, and free money is a great reason to save at least enough to receive a full company match and any available profit sharing. Some plans may require that you remain employed by the company for a certain amount of time before you can keep the matching funds.

## Assess Your Housing Situation

Paying rent indefinitely may do little to improve your financial situation. Buying a home with a fixed-rate mortgage could help stabilize your housing costs, and you can build equity in the property over time as your loan balance is paid off — especially if the value appreciates. A home purchase may also afford tax advantages, but only if you itemize rather than claim the standard deduction on your tax return. Interest paid on up to \$750,000 of mortgage loan debt is deductible, as are the property taxes, subject to a \$10,000 cap on state and local property taxes.

Homeownership is a worthwhile financial goal if you plan to stay put for at least several years. And in many places, owning a home can be less expensive than renting, thanks to low interest rates. But there could be hurdles to overcome, including a hot real estate market, high prices, lingering student debt, and the large chunk of money required for a down payment.

When shopping for a home, resist the temptation to buy more house than you can afford, even if the bank says you can. And don't forget to factor property taxes, insurance, and potential maintenance costs into your buying decisions and household budget.

# 401(k) and IRA: A Combined Savings Strategy

Contributing to an employer-sponsored retirement plan or an IRA is a big step on the road to retirement, but contributing to both can significantly boost your retirement assets. A recent study found that, on average, individuals who owned both a 401(k) and an IRA at some point during the six-year period of the study had combined balances about 2.5 times higher than those who owned only a 401(k) or an IRA. And people who owned both types of accounts consistently over the period had even higher balances.<sup>1</sup>

Here is how the two types of plans can work together in your retirement savings strategy.

## Convenience vs. Control

Employer-sponsored plans such as 401(k), 403(b), and 457(b) plans offer a convenient way to save through pre-tax salary deferrals, and contribution limits are high: \$19,500 in 2021 (\$20,500 in 2022) and an additional \$6,500 if age 50 or older. Although the costs for investments offered in the plan may be lower than those offered in an IRA, these plans typically offer limited investment choices and have restrictions on control over the account.

IRA contribution limits are much lower: \$6,000 in 2021 and 2022 (\$7,000 if age 50 or older). But you can usually choose from a wide variety of investments, and the account is yours to control and keep regardless of your employment situation. If you leave your job, you can roll assets in your employer plan into your IRA.<sup>2</sup> Whereas contributions to an employer plan generally must be made by December 31, you can contribute to an IRA up to the April tax filing deadline.

## Matching and Diversification

Many employer plans match a percentage of your contributions. If your employer offers this program, it would be wise to contribute at least enough to receive the full match. Contributing more would be better, but you also might consider funding your IRA, especially if the contributions are deductible (see below).

Along with the flexibility and control offered by the IRA, holding assets in both types of accounts, with different underlying investments, could help diversify your portfolio. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

## Rules and Limits

Although annual contribution limits for employer plans and IRAs are separate, your ability to *deduct* traditional IRA contributions phases out at higher income levels if you are covered by a workplace plan: modified adjusted gross income (MAGI) of \$66,000 to \$76,000 for single filers and \$105,000 to \$125,000 for joint filers in 2021 (\$68,000 to \$78,000 and \$109,000 to \$129,000 in 2022).<sup>3</sup> You can make nondeductible contributions to a traditional IRA regardless of income.

Eligibility to contribute to a Roth IRA phases out at higher income levels regardless of coverage by a workplace plan: MAGI of \$125,000 to \$140,000 for single filers and \$198,000 to \$208,000 for joint filers in 2021 (\$129,000 to \$144,000 and \$204,000 to \$214,000 in 2022).

## Percentage of U.S. households with tax-advantaged retirement savings accounts



Source: Investment Company Institute, 2021

Contributions to employer-sponsored plans and traditional IRAs are generally made on a pre-tax or tax-deductible basis and accumulate tax deferred. Distributions are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½ (with certain exceptions). Nondeductible contributions to a traditional IRA are not taxable when withdrawn, but any earnings are subject to ordinary income tax. Required minimum distributions (RMDs) from employer-sponsored plans and traditional IRAs must begin for the year you reach age 72 (70½ if you were born before July 1, 1949). However, you are generally not required to take distributions from an employer plan as long as you still work for that employer.

Roth IRA contributions are not deductible, but they can be withdrawn at any time without penalty or taxes. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and take place after age 59½ (with certain exceptions). Original owners of Roth IRAs are exempt from RMDs. Beneficiaries of all IRAs and employer plans must take RMDs based on their age and relationship to the original owner.

1) Employee Benefit Research Institute, 2020

2) Other options when separating from an employer include leaving the assets in your former employer's plan (if allowed), rolling them into a new employer's plan, or cashing out (usually not wise).

3) If you are not covered by a workplace plan but your spouse is covered, eligibility phases out at MAGI of \$198,000 to \$208,000 for joint filers in 2021 (\$204,000 to \$214,000 in 2022).

# Plan Ahead to Help Ease the Burden of Tax Season

Most U.S. taxpayers "completely agree" (68%) or "mostly agree" (26%) that paying their fair share of taxes is a civic duty.<sup>1</sup> However, no one wants to pay more than his or her fair share. To help avoid doing so, consider addressing some important priorities before you begin filling out your tax forms.

Here are some steps that might help reduce stress when preparing your return.

**Create an online account with the IRS.** In addition to making it easier to review important tax information from previous years, an online IRS account provides a secure platform for reviewing the total amount you owe, making payments, responding to third-party tax information authorization requests, and more. Your balance is typically updated each night, and the service is available seven days a week, which makes it a good resource if you don't have easy access to hard copies of previous returns. Visit [irs.gov](https://www.irs.gov) for more information.



***The IRS issued more than 125 million individual income tax refunds in 2020; the average amount was nearly \$2,600.***

Source: Internal Revenue Service, 2021

## **Organize paperwork for all sources of income.**

Completing a tax return can be stressful enough without having to search for supporting documents, so at the outset gather records of all taxable income you earned during the year. If you are unsure whether income is taxable, review IRS Publication 525, *Taxable and Nontaxable Income*. For example, if you received income in the form of a valid check during 2021 but did not cash the check until 2022, you must still include it on your 2021 return. Other forms of taxable income include workplace bonuses and awards (e.g., goods, services, and vacation trips) and winnings from lotteries and raffles. The fair market value of any "found property" you acquired is also taxable. Found property includes anything you found and kept that did not belong to you but is now in your "undisputed possession."

**Determine whether you qualify for disaster relief.** If your home or business is in an area that was affected by a natural disaster, the IRS may extend deadlines for filing returns and paying taxes. To determine whether you qualify, consult the Tax Relief in Disaster Situations page on the IRS website.

Filing your taxes doesn't need to be an annual exercise in frustration. This year, consider simplifying your financial life by doing some basic pre-planning. Before you take any specific action, be sure to consult with your tax professional.

1) Internal Revenue Service, 2021

The content herein should not be construed as an offer to sell or the solicitation of an offer to buy any security. The information enclosed herewith has been obtained from outside sources and is not the product of Oppenheimer & Co. Inc. ("Oppenheimer") or its affiliates. Oppenheimer has not verified the information and does not guarantee its accuracy or completeness. Additional information is available upon request. Oppenheimer, nor any of its employees or affiliates, does not provide legal or tax advice. However, your Oppenheimer Financial Advisor will work with clients, their attorneys and their tax professionals to help ensure all of their needs are met and properly executed. Oppenheimer & Co. Inc. Transacts Business on all Principal Exchanges and is a member of SIPC.