MICHAEL W. McCONNELL'S FINANCIAL NEWS
DIGEST

MONEYLINE

Taking Advantage of a Spousal IRA

Courtesy of Michael W. McConnell, CLU, ChFC, CASL

When you file a joint return, and as long as one spouse has earned income, contributions can be made to the IRA of a nonworking spouse.

Contributions you make to a spousal IRA account have the same advantages you have with your own IRA. All dividends and increases in value grow on a tax-deferred basis. If you select a Roth option, all earnings and increases in value will be tax-free.

When a spousal IRA is established, the separate IRA is in the name of the spouse. It is not a joint account. The working spouse must have sufficient earned income to contribute to both his/her IRA and the spousal account. In 2024, a contribution of $7,000 can be made for each spouse; if both spouses are over 50, then $8,000, then can be contributed to each account.

Contributions can be made to traditional IRAs or to Roth IRAs. There is no restriction regarding making traditional IRA contributions to one spouse's account and Roth contributions to the other.

Consistent additional contributions of $7,000 or $8,000 a year can make a significant impact on your future retirement income. If you haven't been taking advantage of this, you may want to think about it.

FINANCIAL DIAGNOSTICS GROUP

Michael W. McConnell, CLU, ChFC, CASL
Financial Adviser

2431 East 61st Street
Suite 650
Tulsa, OK 74136

(918) 581-8819 or (918) 740-5567
mike@financialdiagnosticsgroup.com

Are you overly attached to your phone? Test yourself for nomophobia. The word derives from the phrase "no mobile phone phobia" and indicates strong fear and anxiety when separated from a smartphone. Nomophobia is not yet considered a mental disorder but is increasingly being studied for its effect on the well-being of smartphone users. Test yourself for free at therapytips.org (click on nomophobia questionnaire).
Source: TherapyTips.org

More sustainable vacation rentals. When you choose a short-term rental over a hotel you have more control over your environmental impact during your stay. To book an eco-friendly place, look for sustainability certification on listings, which verifies sustainability standards at short-term rentals. Read descriptions and talk to hosts about composting, recycling, solar, and other sustainability features. Walk and/or use public transit. Find a place where you can get around easily the way the locals do. Conserve energy by adjusting the thermostat, being mindful of water use and turning off lights while you're out.
Source: nytimes.com

"When your work speaks for itself, don't interrupt."
– Henry J. Kaiser

What's Your Retirement Number?

By Jill Schlesinger, Jill on Money

What will it take for you to retire comfortably?

For years, people would contact me to help them figure out their "NUMBER," as if there were one, magic number that anybody could use.

A recent oft-quoted survey from Northwestern Mutual Life Insurance tried to boil the results down to one number and (drum roll, please) it is $1.46 million, up "a whopping 53% from the $951,000 target Americans reported in 2020."

Obviously, the survey result number is much higher than the median ($86,900) or mean ($333,940) amount of money held in a retirement account, according to the Federal Reserve.

It is unclear how respondents determined their numbers. My guess is that they had $1 million in their heads and then tried to factor in inflation and longer life expectancy to come up with some number that vaguely resembled their specific number.

To help remove the guesswork, here are the steps you should use to help crunch your retirement numbers. You can do this on your own, in consultation with one of the many retirement calculators out there provided by financial institutions. If you are not a do-it-yourselfer, then work with a Certified Financial Planner. But either way, you are going to have to do some of the work.

The hardest part is the simplest: Calculate how much money you spend on a monthly basis. There, I said it!

Regardless of how much money you earn or have saved, all financial planning starts at the same place: determining your monthly income needs in the future.

The way to get there is to start with where you are today. Include the basics like housing, food, utilities, insurance, health care. Then tally up the fun stuff, like gym or club memberships, going out for dinner, vacations.

Don't forget to add in any expenses related to ongoing obligations you have toward others, like aging parents, adult kids or helping out with grandchildren.

The monthly need will be reduced by any income you anticipate receiving in retirement, including pensions, passive income from rental property or a trust, the income generated from your nest egg (savings, investments, retirement accounts), and Social Security.

For many of you, the output may be unnerving. You might find that living to 100 means that you are going to have to save more money today. Or, you may have to work longer, though not necessarily doing the same thing.

Many folks in their 40s find that they can transition to a different career or job in their 50s and 60s, one that will allow them to reach their ultimate goals, with a little less stress. I call this an "off-ramp," a way to slow down, without screeching to a dead halt.

But you can only find that off-ramp if you put in some of the work upfront. In other words: you can actually influence your "magic number," but only if you stop guessing and start planning.

Tips For Snowbirds

By Sandra Block, Tribune Media Service

If you're not ready to move in retirement but are weary of shoveling snow in the winter, renting or buying a home in a warm-weather state could offer the best of both worlds. You can keep your longtime home near family and friends and spend the cold-weather months in a sunny destination that offers year-round pickleball.

More than 1 million people spend part of the year in Florida, and many of them are retirees. The Carolinas, Georgia and Alabama have also become popular destinations for snowbirds.

But before you join the flock of snowbirds, consider:

Buying versus renting. Renting will help you determine whether a community is a good fit before you decide to purchase a condo or house. Kevin McLoughlin, a certified financial planner in Sterling, Virginia, says he encourages clients who are thinking about buying a second home in a warmer climate to spend one winter renting.

"Sunshine is a plus, but you've also got to create a sense of meaning if you're going to stay for a month or two," says Heather Gibson, a professor of leisure, tourism and sport at the University of Florida.

Owning two homes can be expensive, even if you've paid off the mortgage on your primary residence and can afford to pay cash for your second home. The cost of homeowners insurance has skyrocketed in many coastal communities, and insurers typically charge higher premiums for second homes; because second homes are usually vacant part of the year, they're at greater risk for insurance claims. You'll also have to pay property taxes, which may be higher than taxes in your home state. Maintenance and utilities add to the cost, too. Renting will help you get an estimate of the costs of owning two homes.

Health care. Make sure that you have access to good medical care during the winter months. Some Medicare Advantage plans are specifically designed for individuals who will need coverage in more than one location, which is worth considering if you're planning to be a snowbird. Another option is to enroll in original Medicare, which provides coverage anywhere in the United States if the provider accepts it.

Taxes. States in the South and Southwest have long appealed to affluent retirees seeking to escape high state tax rates. But to demonstrate that you're a full-time resident of a no-tax or low-tax state, you must spend the majority of the year in that jurisdiction.

Estate planning. Each state has its own laws and regulations governing estate planning, which complicates matters for snowbirds. For example, a health care directive or power of attorney that's legally binding in one state may not be recognized in another.

"The Politician's Lunch is a pork sandwich and we send the bill to your grandchildren."

What is shrinkflation?

Manufacturers are facing increased costs across the board. Prices of raw materials, labor and transportation have surged, primarily due to rising fuel costs. To offset these expenses, companies have several options. They can increase prices, but noticeable price hikes could lead to consumer backlash. Consumers are very price sensitive, and they'll notice if their orange juice goes up from $2.99 to $3.29 a carton. Another option is reformulating products with cheaper ingredients, but that risks compromising quality. They can absorb the costs, but that's not sustainable. So instead, many opt for a subtle reduction in product sizes, effectively implementing covert price increases that often go unnoticed by consumers.

Source: Tribune Media Service

"Money is the opposite of the weather. Nobody talks about it, but everybody does something about it."

\- Rebecca Johnson

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Getting The Most Out Of The Tax Credit For Plug-ins

By David Muhlbaum, Kiplinger's Money Power

The tax credits available for electric and plug-in hybrid vehicles are potentially generous but also complicated.

The tax credit can knock $3,750 or $7,500 off the price you negotiate. Plus, starting this year, you can get it up front at the dealership, rather than having to wait until you file taxes.

The amount of the discount, if any, depends on details including where the vehicle was assembled and where certain components come from. Because those factors are constantly changing, the only sure way to know whether a car you want to buy is eligible is to check the vehicle identification number (VIN) against a database; a car dealer can help you with it.

There are price limits too: Vans, SUVs and pickup trucks cannot have a manufacturer's suggested retail price (MSRP) of more than $80,000; sedans and other vehicles are limited to $55,000 or less. Plus, you don't qualify for the credit on a new vehicle if your modified adjusted gross income exceeds $300,000 for married couples filing jointly or $150,000 for single filers.

If you want to take maximum advantage of the credit, lease, don't buy. Leasing has long been favored by EV shoppers, given evolving battery technology, but now it's almost a no-brainer, given that only a couple dozen models may qualify for the credit when purchased.

How does this loophole work? Leased electric and plug-in hybrid electric vehicles (PHEVs) are classified as commercial vehicles, making them eligible for the full federal clean vehicle tax credit ($7,500) without any of the income, pricing or sourcing questions. The leasing company claims the credit and can pass that savings on to you, the customer. (Note that we said can, not must.)

Leases themselves are often complicated, so you'll want to keep your eyes open for any additional costs that could erode the benefit of the tax credit.