FINANCIAL WATCH

New Year, New Perspective: Don’t Let Past Financial Decisions Dictate Your Future

The beginning of a new year finds many people establishing new financial goals or recommitting to prior goals that may have fallen short, such as increasing emergency or retirement savings, or paying down debt. Whatever you resolve to accomplish this year, it’s important that you don’t allow past behaviors or decisions that have held you back to dictate your future. That’s a formula for remaining in place, not moving ahead.

Overcoming financial regrets

Below, let's look at five common financial regrets and steps you can take to avoid them and strengthen your finances.

1. Failing to set money aside for emergency savings

Putting money away for a rainy day is critical for creating a sense of financial well-being. Having cash set aside for an unplanned or emergency expense can go a long way toward reducing feelings of financial stress and anxiety and may prevent you from taking on unnecessary debt. To build emergency savings, consider setting aside the same amount each month in a bank savings account or money market fund.

Watch for new ways to save in the future. In 2024, under The SECURE 2.0 Act of 2022 (SECURE 2.0)[1], if your employer offers a retirement account and you are a non-highly compensated employee, they can allow you to contribute to a Roth for emergency savings. The maximum savings amount per year will be $2,500, and you will be able to make up to four withdrawals annually. (Your employer may or may not offer a match on these emergency savings.)[1]

2. Waiting to begin saving for retirement

According to a recent survey, 55% of Americans say their retirement savings are not where they need to be, with nearly 35% saying they’re “significantly behind” and another 20% saying they’re “somewhat behind” their goals.[2] The good news is that it’s never too late to begin saving—or to save more—for retirement. If you’re eligible to participate in your employer’s retirement plan, that can be one of the better ways to grow savings over time thanks to the combination of tax-deferred compounding and matching contributions, if offered. Even if you can’t contribute the maximum contribution amount, which is $22,500 in 2023, make sure you’re contributing enough each year to capture the full match so you’re not leaving free money on the table.

If you’re age 50 or over, take advantage of the ability to make catch-up contributions of up to $7,500 in 2023, for a total of $30,000 for the year. Beginning in 2025, catch-up contribution amounts are scheduled to increase even more to help those nearing retirement close the savings gap. SECURE 2.0 increases these limits to the greater of $10,000 or 50% more than the regular catch-up amount for individuals ages 60 through 63. The increased amounts will be indexed for inflation after 2025.

If you don’t have access to an employer plan, consider contributing to a Roth IRA or to a plan for self-employed business owners, such as a SEP or SIMPLE IRA, or an individual 401(k).

3. Not following a budget

A budget is a highly effective tool for pursuing your financial goals since it provides a clear picture of your cash flow—what’s coming into your household and what’s going out. It helps to optimize savings and spending to help you remain on track toward your goals. To get started, consider apps available through your financial institution or other service providers. Many are free and allow you to aggregate data from accounts at different providers so you can view account values in real time. Once you establish your budget, review it at least monthly and watch for any changes in spending that need to be addressed.

4. Racking up credit card debt

When used judiciously, credit cards can be a useful tool for building your credit history and maintaining a strong credit score. However, it’s all too easy for this type of debt to spiral out of control if not managed carefully. To keep debt in check, pay off balances in full each month. If that’s not possible, make sure you’re paying more than the minimum payment due each month to pay off revolving balances faster. Use your budget to find ways to cut spending to free up more money to pay down debt.

5. Not having a long-term strategy

Without a comprehensive strategy in place, it can be difficult to know if you’re on track working toward your goals. A strategy can help to align financial decision-making with your personal goals, timeframe for pursuing them, and risk tolerance. It can provide a framework for managing risk and making decisions that support your goals at each stage of your life.

Ready to take the next step? If you or someone you know would like to learn more about ways to optimize your financial strategy in the new year, contact the office to schedule time to talk.

1 “SECURE 2.0 Act of 2022.” Senate Finance Committee, 19 Dec. 2022, http://www.finance.senate.gov/imo/media/doc/Secure%202.0_Section%20by%20Section%20Summary%2012-19-22%20FINAL.pdf

2 “Survey: 55% of working Americans say they’re behind on retirement savings.” Bankrate.com, 24 Oct. 2022, http://www.bankrate.com/retirement/retirement-savings-survey-october-2022/.

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