MONEY MATTERS

Your guide to financial security

MONROE ★ COUNTY HERALD

Financial strategies to consider as retirement draws near

Freedom is often cited as a benefit of retirement. Many professionals look forward to the day when they retire and have more free time and the freedom to spend that time however they choose. Of course, the opportunity to spend retirement how one sees fit typically requires considerable financial freedom.

Financial planning for retirement is often emphasized to young professionals beginning their careers. But it's equally important that people on the cusp of retirement continue to look for ways to protect and grow their wealth. As retirement draws near, professionals can consider these strategies to ensure they have the financial freedom to make their golden years shine even brighter.

• **Plan to grow your wealth in retirement.** It's widely assumed that retirees need less income after calling it a career because the need to save for retirement is no longer present. However, some expenses, including health care, may rise in retirement, which underscores the need to continue growing your wealth. Cost-of-living also will increase over the course of your retirement years, which highlights the need to keep growing wealth in retirement. It can be tricky to protect your existing retirement savings as you approach the end of your career while also growing that wealth, so it is best to work with a financial planner to navigate that situation.

• **Maintain a mix with your investments.** A model from the Schwab Center for Financial Research indicated that a hypothetical retiree with a $2 million portfolio in year one of retirement will have slightly less than $1 million left 30 years later if her portfolio maintains a mix of 60 percent stocks and 40 percent bonds and cash. The model found that a second hypothetical investor with the same size portfolio in year one of retirement will run out of funds prior to year 29 if his portfolio is 20 percent stocks and 80 percent bonds and cash. Though conventional wisdom suggests limiting risk as retirement nears and eliminating it entirely upon retiring, modern retirees are living longer and may therefore need to maintain a mix of investments to ensure they don't outlive their money.

• **Make the maximum allowable contributions.** Many aging professionals may not have saved as much for retirement as they might have hoped to upon starting their careers decades ago. In fact, a 2024 survey from Prudential Financial found that many 55-year-olds have fallen far short of establishing the level of financial security they will need in retirement. The Prudential survey found that 55-year-olds had a median retirement savings of less than $50,000, a number that falls considerably short of the recommended goal of having eight times one's annual income saved by this age. If that situation sounds familiar for professionals nearing retirement age, then now is the time to begin catching up. Make the maximum allowable contributions to a 401(k) plan ($23,000 in 2024) and/or an IRA ($7,000). In addition, the Internal Revenue Service notes that IRA catch-up contributions remained $1,000 for individuals age 50 and over in 2024.

Retirement can provide a sense of freedom professionals have worked hard to achieve over the course of their careers. Some simple strategies can help professionals on the cusp of retirement achieve the financial freedom they'll need to enjoy their golden years to the fullest extent.

Tips to save when inflation is high

Consumers likely need no reminder that inflation has taken a notable toll on their finances in recent years. The cost of products and services has seemingly skyrocketed in recent years, leaving consumers with little recourse other than to scale back and find ways to save.

The online financial resource Investopedia notes that the inflation rate is the percentage change in the price of products and services from one year to the next. Data from the U.S. Bureau of Labor Statistics indicates the inflation rate reached 8 percent in 2022, or four times the 2 percent rate of inflation the Federal Reserve aims to maintain through its various monetary policies. Though the U.S. Inflation Calculator indicates the inflation rate cooled to 2.5 percent by the end of summer 2024, that may not comfort consumers who are still confronting high prices on various items, including housing.

Indeed, inflation continues to affect people from all walks of life. However, consumers can consider various strategies to save even when inflation is keeping costs up.

• **Use rewards to your advantage.** Consumers now have an array of ways to pay for products and services at their disposal. Conventional wisdom has long suggested credit cards should be used only in emergencies, but consumers who are confident they can pay off balances in full each month can consider using rewards-based credit cards to their advantage. Such cards return a certain percentage of each purchase (typically around 1 to 2 percent) to consumers, and they can be used to purchase everyday items like groceries and gas. Of course, this only benefits consumers if they pay off their balances in full each month. If not, the interest charges on credit cards will almost certainly exceed the 1 to 2 percent cash back consumers earn.

• **Open a high-yield savings account.** The days of earning significant interest on savings accounts may seem like a distant memory, but high-yield savings accounts are still available at many financial institutions. Consumers intent on building their savings in the face of a higher cost of living can look into high-yield savings account options at their own bank or another financial institution. High-yield savings accounts typically mandate account holders maintain a minimum balance that is considerably higher than the minimum balances on accounts with lower interest rates, so this might not be an option for everyone. But consumers who have already squirreled away a significant sum in their savings accounts may be able to grow their money, and thus overcome inflation rates, by transferring the balance to a high-yield savings account.

• **Examine your spending.** Perhaps the simplest way to save when inflation is high is to periodically assess your spending habits and make tweaks designed to save money. Such assessments can include everything from identifying ways to save at the grocery store to determining if entertainment subscriptions are worth the investment. Many consumers have lamented the high cost of groceries since 2022, and it's possible a membership to a wholesale retailer like Costco® can help reduce expenditures on various items, including paper products, that tend to be expensive at more traditional grocery stores.

Data indicates inflation has cooled considerably in 2024. But the cost of many items remains high, forcing consumers to rely on various ways to save money.

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What to know about estate planning

Managing and planning one's estate sounds like a task reserved for the über-rich. But that's a common, and potentially costly, misconception. Indeed, estate planning is a necessary component of long-term financial planning no matter the size of a person's investment portfolio.

Estate planning is an umbrella term that encompasses anything from asset allocation after death to end-of-life health care decisions to power of attorney should an individual become incapacitated. Key components of an estate plan typically include wills, trusts, power of attorney, and health care directives. According to a 2021 survey by Caring.com, only 33 percent of Americans have a will in place, and 60 percent of respondents in the same survey cited "not having enough assets" as reasons for not creating an estate plan.

The following are some basic steps anyone can take to establish an estate plan.

• **Create a will.** A will is a legal document that specifies how your assets will be distributed after your death. Although a will can be set up without an attorney, relying on an attorney to create or update a will can ensure that it is legally sound and reflects your intentions. In the will you can name an executor who will carry out the plans of the will. Without a will, intestacy laws where you live will dictate the distribution of your assets.

• **Establish trusts.** Morgan Legal Group says trusts are tools that can protect assets, minimize estate taxes and provide for beneficiaries. Trusts can be revocable or irrevocable. Special needs trusts also can be set up. Trusts can help avoid probate and reduce estate taxes. The National Bureau of Economic Research indicates trusts can reduce estate taxes by up to 40 percent. Trusts also can shield some of your assets so they cannot be counted as part of your responsibility for paying for skilled nursing home admittance.

• **Determine powers of attorney and health care proxies.** If someone becomes incapacitated, that person will need responsible people who can act on their behalf. A financial or legal power of attorney can help with paying bills, accessing accounts and managing finances and other needs. A health care proxy can be listed on an advanced health care directive, known as a living will. The proxy will communicate your wishes indicated on the directive and see that your wishes are honored.

Knowing what's included in an estate plan can ensure that people make informed choices about their assets, beneficiaries and financial futures. It is always best to work with legal, medical and tax professionals when drawing up estate plans to avoid any issues that can arise when matters are not decided ahead of time.

Fiscal Facts: Wisconsin's State and Local Tax Burden Hit Another Record Low in 2024

State and local taxes fell once again as a share of Wisconsinites' incomes in 2024, pushing this ratio -- known as the state and local tax burden -- to its lowest level since at least 1970.

This ratio between what Wisconsin residents pay in all state and local taxes and what they receive in income from all sources fell from 9.92% in 2023 to 9.62% in 2024. The decrease reflects continued growth in incomes in the state, plus aggressive efforts by the state to hold down local property taxes.

Each year, the Wisconsin Policy Forum examines every local and state tax paid, from the fees paid by dry cleaners ($369,050 in 2024) to gross local property taxes ($13.09 billion). To these fiscal year 2024 figures, we compare state personal income data from the prior calendar year, in this case 2023, to calculate the tax burden.

Overall, state and local tax revenues grew by 1.9% in 2024, rising to $36.9 billion from $36.2 billion in 2023. That lagged the rate of inflation and was the smallest increase since 2017. Meanwhile, income growth easily outstripped growth in tax collections, as personal income in calendar year 2023 grew by 5.2% -- double the increase seen the previous year. However, as it has in every year since 2009, personal income growth in Wisconsin lagged the national average, which this year was 5.9%.

Combined local government tax revenues, those collected by municipalities, counties, school districts, and technical college and special districts, grew 2.7% in 2024, to $12.28 billion. Revenue from gross local property taxes – the largest single tax in Wisconsin – grew by 4.6% in 2024, the most since 2008. The increase reflected referenda approved by voters and the end to the state's freeze on school district revenue limits.

Total state tax collections grew to $24.65 billion in fiscal year 2024 from $24.27 billion in the prior year. This 1.6% annual increase was the smallest since 2020. Most of these revenues come from individual income tax collections, which rose by 3.2%, from $9.42 billion in 2023 to $9.72 billion in 2024. Growth in income tax collections has been restrained by tax cuts included in the 2021-23 and 2023-25 state budgets.

Corporate income tax collections fell, dropping 1.7% from $2.75 billion in 2023 to $2.70 billion in 2024. Sales tax collections climbed 1.8% in 2024 to $7.59 billion – the slowest year-over-year growth rate since 2010. This came as inflation is now receding after several straight years in which it drove up sales tax revenues rapidly.

It is worth noting that elected leaders in Wisconsin in recent years have focused on holding down the property tax, individual income tax, and motor fuel tax, but there have been fewer major cuts or decreases to sales taxes, and some increases. As a result, sales taxes have made up a larger share of total state and local tax collections over time, from just under 12% in 1970 to 22.4% in 2024.

Overall, the state and local tax burden in Wisconsin has fallen to a record low. Since 2000, no other state has seen a comparable decline in state and local taxes as a share of income. Going forward, some combination of economic expansion and more efficient government will likely be needed to maintain good quality public services while keeping state and local taxes affordable.

This information is a service of the Wisconsin Policy Forum, the state's leading resource for nonpartisan state and local government research and civic education. Learn more at wispolicyforum.org.