

Beyond the Basics

Customized Wealth Strategies



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Inflation Cuts into Wage Gains

Driven by labor shortages, median hourly wages increased at an annual rate of 5.2% in December 2021, the highest level since June 2001. However, inflation cuts into buying power, and *real wages* — adjusted for inflation — actually dropped as inflation spiked in 2021. By contrast, negative inflation (deflation) during the Great Recession sent real wages skyrocketing temporarily even as non-adjusted wage growth declined.



Sources: Federal Reserve Bank of Atlanta, 2022, and U.S. Bureau of Labor Statistics, 2022, data 1/2001 to 12/2021. (Wage growth is calculated by comparing the median percentage change in wages reported by individuals 12 months apart; real wage growth is calculated by subtracting CPI-U inflation from wage growth.)

Key Retirement and Tax Numbers for 2022

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2022.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2022 is \$16,000, up from \$15,000 in 2021.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2022 is \$12,060,000, up from \$11,700,000 in 2021.

Standard Deduction

Taxpayers can generally choose to itemize certain deductions or claim a standard deduction on their federal income tax returns. In 2022, the standard deduction is:

- \$12,950 (up from \$12,550 in 2021) for single filers or married individuals filing separate returns
- \$25,900 (up from \$25,100 in 2021) for married joint filers
- \$19,400 (up from \$18,800 in 2021) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2022 is:

- \$1,750 (up from \$1,700 in 2021) for single filers and heads of household
- \$1,400 (up from \$1,350 in 2021) for all other filing statuses

Special rules apply for those who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$6,000 in 2022 (the same as in 2021), with individuals age 50 or older able to contribute an additional \$1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges (see *chart*). For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges (see *chart*). The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to a Roth IRA

	2021	2022
Single/Head of household	\$125,000–\$140,000	\$129,000–\$144,000
Married filing jointly	\$198,000–\$208,000	\$204,000–\$214,000
Married filing separately	\$0–\$10,000	\$0–\$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2021	2022
Single/Head of household	\$66,000–\$76,000	\$68,000–\$78,000
Married filing jointly	\$105,000–\$125,000	\$109,000–\$129,000

Note: The 2022 phaseout range is \$204,000–\$214,000 (up from \$198,000–\$208,000 in 2021) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is \$0–\$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.

Employer Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$20,500 in compensation in 2022 (up from \$19,500 in 2021); employees age 50 or older can defer up to an additional \$6,500 in 2022 (the same as in 2021).
- Employees participating in a SIMPLE retirement plan can defer up to \$14,000 in 2022 (up from \$13,500 in 2021), and employees age 50 or older can defer up to an additional \$3,000 in 2022 (the same as in 2021).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above \$2,300 in 2022 (up from \$2,200 in 2021) is taxed using the parents' tax rates.

When Two Goals Collide: Balancing College and Retirement Preparations

You've been doing the right thing financially for many years, saving for your child's education and your own retirement. Yet now, as both goals loom in the years ahead, you may wonder what else you can do to help your child (or children) receive a quality education without compromising your own retirement goals.

Knowledge Is Power

Start by reviewing the financial aid process and understanding how financial need is calculated. Colleges and the federal government use different formulas to determine need by looking at a family's income (the most important factor), assets, and other household information.

A few key points:

- Generally, the federal government assesses up to 47% of parent income (adjusted gross income plus untaxed income/benefits minus certain deductions) and 50% of a student's income over a certain amount. Parent assets are counted at 5.6%; student assets are counted at 20%.¹
- Certain parent assets are excluded, including home equity and retirement assets.
- The Free Application for Federal Student Aid (FAFSA) relies on your income from two years prior (the "base year") and current assets for its analysis. For example, for the 2023-2024 school year, the FAFSA will consider your 2021 income tax record and your assets at the time of application.

Strategies to Consider

Financial aid takes two forms: need-based aid and merit-based aid. Although middle- and higher-income families typically have a tougher time receiving need-based aid, there are some ways to reposition your finances to potentially enhance eligibility:

- Time the receipt of discretionary income to avoid the base year.
- Have your child limit his or her income during the base year to the excludable amount.
- Use countable assets (such as cash savings) to increase investments in your college and retirement savings accounts and pay down consumer debt and your mortgage.
- Make a major purchase, such as a car or home improvement, to reduce liquid assets.

Many colleges use merit-aid packages to attract students, regardless of financial need. As your family

explores colleges in the years ahead, be sure to investigate merit-aid opportunities as well. A net price calculator, available on every college website, can give you an estimate of how much financial aid (merit- and need-based) your child might receive at a particular college.

Don't Lose Sight of Retirement

What if you've done all you can and still face a sizable gap between how much college will cost and how much you have saved? To help your child graduate with as little debt as possible, you might consider borrowing or withdrawing funds from your retirement savings. Though tempting, this is not an ideal move. While your child can borrow to finance his or her education, you generally cannot take a loan to fund your retirement. If you make retirement savings and debt reduction (including a mortgage) a priority now, you may be better positioned to help your child repay any loans later.

Some Parents Use Retirement Funds to Pay for College

	Retirement Savings Withdrawal		Retirement Account Loan	
	2020	2021	2020	2021
Percentage of families using each source	14%	16%	7%	6%
Average amount	\$3,143	\$3,633	\$2,806	\$3,631

Source: Sallie Mae, 2021

Consider speaking with a financial professional about how these strategies may help you balance these two challenging and important goals. There is no assurance that working with a financial professional will improve investment results.

Withdrawals from traditional IRAs and most employer-sponsored retirement plans are taxed as ordinary income and may be subject to a 10% penalty tax if taken prior to age 59½, unless an exception applies. (IRA withdrawals used for qualified higher-education purposes avoid the early-withdrawal penalty.)

1) College Savings Plan Network, 2021

When Buying Is Easy, Paying Later Can Be a Problem

If you shop online, you might have noticed a growing number of buy now, pay later (BNPL) services that offer the option to spread out the payments on your purchases. Buyers who make one partial payment upfront and agree to several additional interest-free installments can receive their orders right away. This is a key difference from the layaway plans of the past: Shoppers had to wait until the balance was paid to take their goods home. Many stores discontinued layaway plans in the 1980s when the use of credit cards became widespread.



By one estimate, BNPL amounted to nearly \$100 million — or about 2.1% — of all global e-commerce transactions in 2020. This share is projected to double to 4.2% by 2024.

Source: Worldpay Global Payments Report, 2021

BNPL plans are more popular with younger consumers trying to stretch their paychecks, partly because they are more comfortable shopping online (and particularly on smartphones). At first glance, it may seem like a worthwhile convenience, but there are good reasons to think twice before committing to installment purchases.

Credit Is Credit

BNPL plans are essentially point-of-sale loans. Applying for the financing is quick and easy, which seems like a plus when time is tight.

However, speedy access to credit also provides instant gratification and allows for more impulse buying. It might tempt you to overspend on things you don't really need and probably wouldn't buy if you had to save up and/or pay 100% of the cost upfront. And if you make a lot of smaller purchases across multiple services, it may be harder to keep track of how much you are actually spending.

In fact, one criticism of BNPL services is that they make it easier for consumers to fall into debt. As with credit cards, you would face financial consequences such as late fees and/or high interest rates if you encounter a financial setback and can't pay the installments on schedule.

Another point to consider is that credit-card companies report on-time payments to the credit bureaus, so using credit cards responsibly can help you build a positive credit history. In contrast, some BNPL lenders may not bother to report on-time payments — though they will surely report missed payments and collections. Before you use any BNPL service, read the fine print carefully to make sure you understand the terms and conditions and the company's credit reporting policies.

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