



## Practical End-of-Year Financial Planning

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If you've been scrolling through social media, you've likely come across posts about 'year-end tax planning' or 'financial to-dos before the year-end.' But what are the genuinely crucial considerations most of us should focus on?

To start, you might want to contemplate realizing capital losses in the taxable portion of your investments. This can serve as a strategy to offset income and taxable distributions from mutual funds or bonds. Nearly every portfolio includes some losses, even in years when the markets are generally up. These underperforming positions can be sold now, and the resulting losses can be applied to offset up to \$3,000 of ordinary income (including stock dividends and bond interest) and essentially any amount of capital gains from the sale of assets like a home or business.

The harvested losses can also be applied to offset the taxable income generated by a Roth conversion. In a Roth conversion, you move money from a traditional IRA to a Roth IRA, where you pay taxes on the transferred amount. This ensures that the funds you withdraw in retirement from the Roth will be tax-free. If there's a substantial loss in your taxable portfolio, this may be an opportune time for a relatively tax-efficient Roth conversion.

For those with salaried employment, it's essential to confirm that you are maximizing your 401(k) contributions for the year, with a maximum limit of \$22,500 for 2022; or \$66,000 for combined employee and employer contributions. Contributions to IRAs are less time-sensitive, as you have until April 15 to make your 2023 IRA contributions.

If you have a charitable inclination, consider making charitable donations before year-end to claim a tax deduction. However, your donation should ideally push your total tax benefit above the relatively high standard deduction threshold (currently \$13,850 for single taxpayers; \$27,700 for joint filers). This is why many advisors recommend 'bunching' multiple years of donations into one year and placing the funds into a donor-advised fund for future charitable contributions.

Conversely, to tax-loss harvesting, donating investment positions from taxable accounts that have significant gains above their purchase price can make sense. This approach eliminates the capital gains tax liability that selling these positions would trigger, as the tax deduction is based on the current value of the investment.

Lastly, if your advisor or accountant informs you that you've underpaid estimated taxes for the current year while you're still taking distributions from your IRA,

you can rectify this by having the underpaid estimated tax amount withheld from your last few distributions. Interestingly, even if the estimated payments are overdue, this action can satisfy the IRS's requirements for timely payments. While many of the financial tips circulated on social media should ideally be incorporated into your financial planning throughout the year, these are practical considerations with specific year-end deadlines.



## Global Population Trends

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If you've ever found it challenging to grasp the distribution of the world's population through raw numbers alone, a visual representation might help you gain a clearer perspective. Enter ThePudding, a fascinating project (accessible at [https://pudding.cool/2018/10/city\\_3d/](https://pudding.cool/2018/10/city_3d/)) that offers a global map allowing you to explore population patterns up close. Here, you can see 'needles' of varying heights and quantities that symbolize population concentrations in different regions.

For example, when you focus on the compact nation of Bangladesh, you'll notice numerous towering needles distributed across the country, illustrating how a relatively small land area can support a larger population than the vast expanse of Russia. The map also highlights densely populated regions in southern China, starkly contrasting with the sparser population densities in Europe, Africa, North and South America. You might be surprised to discover that Kinshasa in the Republic of Congo surpasses Paris, France, in population.

As you examine India on the map, you'll observe a profusion of population 'needles' scattered throughout the country, while nearby nations such as Afghanistan, Uzbekistan, Kyrgyzstan, and Burma appear comparatively less populated.

The website allows you to zoom in and out, enabling you to locate the county you grew up in and observe population changes from 1990 to the present day. Orange bars signify population declines, while green bars denote growth. Notably, certain cities like Cincinnati, OH, and St. Louis, MO, and regions like much of Russia are experiencing significant population declines. A glance at Detroit reveals a prevalence of red bars, indicating a population decrease in and around the city.

Why is this visualization important? A country's, region's, or county's GDP growth relies on the combination of population growth and increased worker productivity. Nations with larger populations are poised to become prominent players in the global economy. However, even beyond economic considerations, this data provides an intriguing and engaging perspective on global demographics



## The Looming Question of Long Term Care

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When financial planners assess the sustainability of an individual's retirement assets, one significant uncertainty looms large: the cost of long-term care. These expenses are not covered by Medicare and should not be underestimated. According to SeniorLiving.org, the median monthly cost of a private room exceeds \$9,500, with an annual cost of over \$50,000 for a home health aide. Costs vary significantly across states, ranging from more than \$33,000 per month in Alaska to just over \$6,000 per month in Louisiana.

The challenge lies in the fact that while most retirees may not face dementia or other disabilities, approximately seven out of ten will require some form of care facility at some point. There's no way to predict who among us may incur unexpected expenses of half a million dollars or more.

Government and state programs can provide partial coverage for long-term care expenses, but Medicaid assistance only becomes available once retirees have substantially depleted their other financial resources. Anecdotal evidence suggests that facilities accepting government payments may not always offer the most appealing options.

Retirees have the option to protect themselves against future long-term care expenses with long-term care insurance, but early planning can be advantageous. The average annual premium for a 55-year-old is roughly \$3,000, whereas it exceeds \$50,000 for an 82-year-old. You can use a calculator to explore different premium and benefit options in various states at: <https://ltcr.com/calculator/>.

While some individuals may hesitate to pay long-term care premiums, fearing that their investment will go to waste if they never require nursing facility care or skilled in-home assistance, it's worth noting that these same individuals invest in home and auto insurance policies to protect against catastrophic losses. Fortunately, in most years, these insurance premiums do not result in payouts. Insurance provides peace of mind, and the critical question people should ask themselves is whether it makes sense to safeguard against the largest unknown expense in their retirement plan's later years.



## Growing Costs of Healthcare

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While overall inflation has moderated over the past 18 months, there is one budget item where inflation remains unchecked: health insurance. According to the latest survey conducted by KFF (Kaiser Family Foundation) on health insurance premiums, the average annual premiums for single coverage have reached \$8,435, while family coverage now averages \$23,968. This represents a 7% increase over the previous year and a staggering 47% surge since 2013. Preferred provider plans come in slightly higher at \$8,906 for single coverage and \$25,228 for family coverage. In comparison, the Consumer Price Index, a gauge of general inflation, has increased by only 30% since 2013. The chart illustrates that health insurance price hikes have been consistently rising since 1999.

Does this mean that health insurance companies are reaping excessive profits at the expense of policyholders? The most recent report from the National Association of Insurance Commissioners (as of mid-2022) provides insight into the aggregate 'loss ratio' for different policy types. This ratio offers a rough estimate of the difference between what insurance companies collect in premiums and what they pay out in claims to policyholders. For comprehensive hospital and medical coverage from 2018 to mid-2022, the loss ratio ranged from 67.8% to 77.7%. Medicare supplement policies saw loss ratios between 72.9% and 82.4%.

It's important to note that these figures do not account for administrative and overhead expenses, including the cost of processing claims. Consequently, the actual profit margins are lower than these ratios might imply. Nonetheless, it's evident that the insurance industry is retaining a significant portion of premium dollars, and it operates within a relatively captive market that allows for rate increases without significant concern of policyholders opting out in protest.