BUSINESS

Milwaukee Journal Sentinel
JSOnline.com

Sunday,
March 18, 2018

D

Don’t miss this moment to bolster your savings

401(k) ADVISER
MICHAEL J. FRANCIS

Not since the Reagan era has there been an opportunity like this one. The chance for so many to save more money or pay down more debt without reducing current spending.

“By now, most people should have seen an increase in their take home pay. The new tax law decreased Federal income tax rates and as a result lowered the IRS’s tax withholding tables. Depending on the amount and frequency of the paycheck, the average American worker has seen an increase in their take home pay by tens if not hundreds of dollars each check,” according to Bob Freese, tax manager at Schenck S.C.

Here are some ideas for how to best take advantage of this opportunity.

Increase your 401(k) contribution to maximize the match

Your employer’s retirement plan is a powerful tool to help you build wealth for retirement. It’s convenient, tax-advantaged and the best deal around if you happen to work for a generous employer that will match your contributions. Be sure to collect all of this “free money” from your employer. Not doing so is like walking past $20 bills on the sidewalk. If you’re unsure whether your employer offers matching contributions, talk to your human resources department.

Pay down expensive consumer debt

After you’ve collected all those $20s, the next best thing you can do is use this extra take home pay to reduce credit card debt. This debt is typically the most expensive kind you have and needs to be eliminated as quickly as possible. Lowering your credit card debt by $2,000 can save you nearly $600 a year in interest payments.

Set up an emergency fund

When you have the first two goals covered, setting money aside for an emergency is a really good idea. You never know when an unexpected expense is going to require immediate liquidity. Open a money market or high interest savings account and start pumping a few bucks each paycheck toward it. You’ll be surprised how quickly it builds and how good it feels to know you’ve got some financial backup. While three months of typical expenses is a good initial goal, six months is a better long-term goal.

Longer-term planning

To reach retirement age financially prepared to stop working, you need to target a minimum savings rate of 10% of your income. If you’re getting a later start, better to target 15%. You can also consider using your tax savings to switch your future contributions from traditional pre-tax to Roth post-tax. This move has the same effect of increasing your contribution and offers a long list of tax and estate planning advantages. If you have your retirement savings under control, consider making an extra car or mortgage payment. This maneuver can save you a bunch of interest in the future.

Finally, the recent change in the tax law is a good reminder that you should periodically check to ensure you’re not having too much or too little withheld from your paycheck. The IRS has updated its tax withholding calculator, which can be found by clicking on “withholding calculator” on www.IRS.gov. With the help of a recent pay stub, this calculator can help make sure you’re on the right track for 2018.

Have the discipline to capture this additional take home pay and put it to its highest use. Otherwise, this recent “windfall” is likely to disappear into your everyday discretionary spending and be consumed in a far less productive fashion.

Act today to capitalize on this opportunity.

The material in this column is provided for informational purposes only. Neither the information nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. Francis Investment Counsel does not offer personal tax or legal advice. Michael J. Francis is president and senior investment consultant of Francis Investment Counsel LLC, a registered investment adviser based in Brookfield. He can be reached at michael.francis@francisinvco.com