Gear Up Your Financial Plan for 2022

As the new year gets underway with the COVID-19 pandemic continuing to induce whiplash in financial markets and the economy, you should consider how you can protect your hard-earned finances and long-term savings.

Volatility will continue to reign supreme as long as the pandemic and its resulting shocks to the economy, including supply chain disruptions, worker shortages and inflation, are present.

Here are six tips for bolstering your wealth.

Pay down high-interest debt

Paying off credit cards and other high-interest consumer debt is one of the smartest investments you can make.

The average credit card charges 14.5% interest, according to the WalletHub "Credit Card Landscape Report." Any balances you can pay off will net you an impressive return вЂ” with no risk.

Rebalance your portfolio

2021 was a big year for stocks. Recent gains might have left your investment portfolios overexposed to stock market risk.

It might make sense to sell some stock holdings and buy something a little less volatile.

As you do so, be alert for opportunities to sell some losing investments from your non-retirement accounts as well.

This creates capital losses, which you can use to offset up to $3,000 in ordinary income, and an unlimited amount of capital gains. This may significantly reduce your overall capital gains tax bill.

Maximize your tax-advantaged contributions

At a minimum, try to contribute enough to max out your employee match.

Try to contribute as much as you can to an IRA or Roth IRA. The maximum allowable contribution for 2022 is $6,000, or $7,000 for those age 50 and older. If you're married, you can contribute an additional $6,000 to a spousal IRA ($7,000 if your spouse is age 50 or older).

If you haven't maxed out your 2021 IRA contributions (the limits for 2021 are the same as for 2022), you still have until April 15th of 2022 to do so.

For 2022, the maximum allowable contribution limit for 401(k)s is $19,500. If you're age 50 or older, you can contribute up to $26,000.

Think beyond retirement accounts

IRAs and 401(k)s are great, but there are other ways to minimize taxes while setting money aside. Health savings accounts, for example, allow qualified individuals to contribute up to $3,650 per year, and families to save $7,300 вЂ” all pre-tax. To contribute, you must be enrolled in a high-deductible health plan.

Any money you spend for qualified health care expenses is tax-free. Unused money is available to supplement retirement spending after age 65, just like an IRA.

Consider a Roth conversion

Chances are good that future tax rates will be higher. Consider locking in today's presumably lower income tax rates on your IRA accounts by converting them to a Roth account.

You'll pay ordinary income taxes on amounts you convert. But if you leave the money in the accounts at least five years, it grows tax-free.

What's more, making the conversion can help save taxes on Social Security income, as well, when you begin taking benefits.

For the best result, try to pay any taxes due with money from outside the IRA.

Brace for inflation

While most analysts don't expect a return to 1970s-style double-digit annual price increases, inflation has been heating up. Urban consumers saw prices jump at a 6.8% rate over the 12 months ending November вЂ” the highest in nearly 40 years.

Stocks tend to beat inflation over long periods of time, but they come with a lot of risk. You can also consider diversifying into asset classes like real estate, inflation-protected treasuries or gold.

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