

New Year's financial and tax resolutions for 2014



As 2013 ends, it's traditional for Americans to have New Year's resolutions for the upcoming year. The most common are "quit smoking" and "lose weight," and most will NOT do what's required to achieve their goals. Let's list some financial and tax resolutions that, hopefully, are easier to implement.

—Calculate your retirement goals in dollars. This involves determining how much annual spendable income you need in your retirement years.

I advise people to ignore the conventional financial suggestion that you can live on 70 percent of your working income. Why would you plan on spending less? Do you want to cut back on eating out and entertainment by 25-50 percent? Do you want to take no vacations instead of the normal 2-3 week you get while working? When you retire, you now have unlimited time to pursue your dreams.

—Understand the effects of inflation. If you think you need \$50,000 of after-tax income for your first year of retirement, look at the effect of various levels of inflation.

The U.S. government says that over the last 50 years, average inflation has been around 3 percent. I believe that's a conscious understatement. In the 1970s, the U.S. government developed the Core Consumer Price Index, which excluded goods with high price volatility, such as food and energy.

According to Wikipedia, "On Jan. 25, 2012, the Fed announced they would stop using the core CPI and rely instead on the Personal Consumption Expenditures price index." If one looks back to 1992, this PCE index rises one-third percent lower than the CPI index.

Investor Guide

Written by Dr. Harold Wong

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You can reach Dr. Wong at 480-706-0177, haroldwong1@yahoo.com or www.drharoldwong.com. For his previous articles and future seminars, visit www.DrWongInvestorGuide.com

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