Intelligent Capitalworks

3 Financial New Year's Resolutions for 2025

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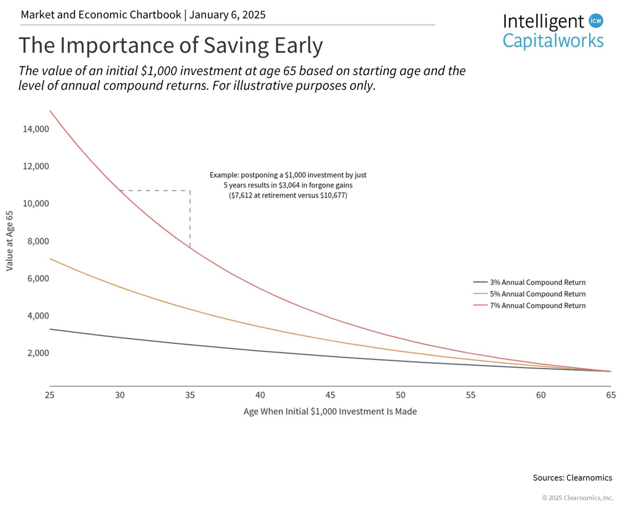
The start of the year is the perfect time to prioritize both personal and financial well-being. While physical health often takes center stage in New Year's resolutions, financial fitness deserves equal attention. This is especially true after two years of strong market returns and changing economic conditions.

Resolve to begin investing more to build long-term wealth



Just as you might plan your fitness goals, revisiting your financial roadmap can help guide you through the coming year. This could include reviewing your financial situation, setting realistic savings targets, and ensuring you have an appropriate investment plan. In particular, managing your asset allocation in a way that is tailored to your return objectives and risk tolerance is an important way to stay on track regardless of market and economic events in 2025.

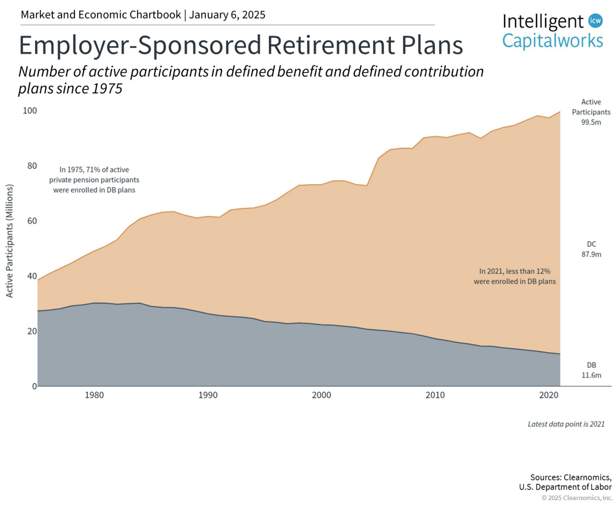
So, whether your goals involve advancing your investment plan, building an emergency fund, reducing debt, or growing your retirement nest egg, breaking these objectives into manageable actions can make them less daunting and more achievable. Below are three key ways to get started today.

There is an often quoted proverb that states "the best time to plant a tree was 20 years ago. The second best time is now.” This is because time in the market is one of the most powerful wealth-building tools, thanks to the power of compound returns. When investment returns are reinvested, they can generate their own returns, creating a compounding effect that turns savings into real wealth over decades.

For example, the accompanying chart shows how waiting even a few years can have a large impact. For an investor who experiences 7% average returns, beginning to invest when they are 35 rather than 30 means their original $1,000 investment grows to $7,612 instead of $10,677 when they retire. The same pattern is true whether those average returns are 3%, 5%, or 10%. Over the course of an investment lifetime, these differences add up and can become significant. Even small contributions can grow substantially over decades through the compounding process.

What prevents some from investing is the fear of market swings, especially with markets near all-time highs. However, the reason those who can stay invested are rewarded in the long run is exactly because it is difficult to do so. When investors exit the market due to short-term concerns, they create opportunities for disciplined investors to buy at even more attractive prices, setting the stage for higher future returns. This is why keeping a level head, and investing over long periods of time, are the best ways to achieve financial goals.

Resolve to review your retirement accounts



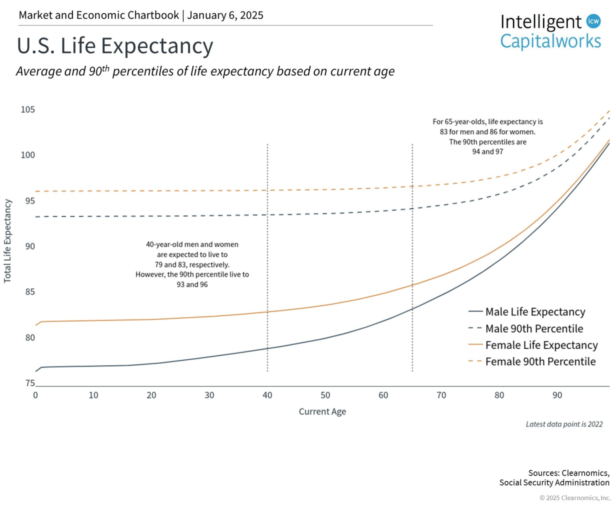
The retirement landscape has changed dramatically over the past half century, with a significant shift from traditional pension plans to “defined contribution” accounts. It used to be that most companies offered “defined benefit” plans, where workers were guaranteed a specific payment amount in retirement. Today, defined contribution plans like 401(k) and 403(b) plans are far more common, as shown in the accompanying chart.

This transformation has fundamentally changed our responsibilities when planning for retirement. Today the burden is on individual workers to ensure they have the right plan in place for a comfortable retirement. Individuals must make decisions about account types, tax strategies, contribution rates, investment allocations, and distribution strategies.

Important considerations to advance your retirement strategy in 2025 include which accounts are most appropriate given your circumstances, whether you qualify for an employer match, what type of investments should be made in each account to maximize tax efficiency, and more. For example, it can make sense for taxable bonds to be held in tax-advantaged accounts since interest payments are often taxed as regular income.

While the trend toward defined contribution plans places the burden of funding retirement on individuals, it also presents opportunities to customize your financial plan. After all, it’s unclear what the future of programs such as Social Security and Medicare may be. This is why it’s essential to become educated on the best approach for your situation, ideally with the help of a trusted advisor.

Resolve to consider the impact of a longer retirement



The fact that life expectancies continue to rise is unambiguously positive. Yet, perhaps the greatest financial risk for any retiree is the prospect of running out of funds, also known as “longevity risk.” The goal of addressing longevity risk is to ensure that retirees can enjoy a long and healthy retirement without worrying about their finances.

Today, savings have to last longer and generate more income than for prior generations. For many, longer life expectancies could mean spending 30 years or more in retirement. Just as importantly, these savings also need to continue growing to support longer and longer retirements, especially during inflationary periods.

The accompanying chart shows that, according to the Social Security Administration, today’s 40-year-old men and women are expected to live to 79 and 83 on average, respectively. However, one in ten could live to 93 and 96, or longer. For those who are already 65, life expectancies are even higher. These demographic statistics suggest that, for many, planning for a retirement that lasts to the age of 80 is not enough – it could extend for decades beyond that.

Factors like healthcare costs, inflation, and sustainable withdrawal rates become even more critical when planning for an extended retirement. It’s clear that understanding and preparing for longevity risk is essential for maintaining financial security. By adding financial fitness to other health and life goals, you can fund a longer retirement and ensure you don’t lose sleep over money.

The bottom line? The start of the year is a great time to set your financial New Year’s resolutions. Saving early, reviewing your retirement plans, and ensuring your portfolio creates enough income and growth are all critical to achieving long-term financial goals.

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