Client Conversations â?? Fall 2022

Q: With the high prices of gas, Iâ??m considering buying an electric vehicle. But is it really cheaper in the long run than a gas-powered car?

Over time, yes. Although electric vehicles (EVs) are often more expensive to purchase than their gas-powered counterparts, EVs generally cost 4 cents less per mile to operate than a gas-powered car, saving you $8,000 over 200,000 miles. Eventually, your savings will outweigh your initial investment. Hereâ??s how.

U.S. gas prices have been volatile in recent months due to shortages and supply-chain issues caused by the labor crunch and the war in Ukraine. Average prices for regular gas topped $5 per gallon in mid-June, according to AAA. Although prices have dropped since, sticker shock at the pump was enough to make many people consider switching to an EV car.

When comparing electric and gas cars, you should factor in the purchase price, ongoing fuel and maintenance expenses, and any tax incentives you might get. As an example, letâ??s compare the gas-powered Lexus ES 250, which has a base price of around $41,000, with an electric alternative: the Tesla Model 3.

The Tesla starts at $47,000, so itâ??s more expensive upfront. However, assuming you drive the car for eight years, the Tesla ends up cheaper in terms of total cost of ownership. In fact, after taking into account fuel, maintenance, insurance, taxes, and other costs, the Tesla works out to be 4.8 percent less expensive according to a February 2022 analysis by the data-technology firm Atlas Public Policy.

When it comes to trucks, with their significantly higher fuel consumption, there is an even greater cost difference.

The Ford F-150, which starts at around $31,500, would really hurt the wallet the next time gas hits $5 a gallon, costing a whopping $180 to fill the optional 36-gallon gas tank. Looking at the total cost of ownership over eight years, the electric Ford F-150 Lightning, which sells for around $40,000, is much more economical, at 17.1 percent less than the gas-powered version.

In general, EVs have lower maintenance costs as well. Note though that expenses will vary depending on whether youâ??re charging at a free, public station or one with a per-minute fee or youâ??re plugging your car in at home at night, when electric rates are lowest.

Also, consider that more federal tax credits could be available to eligible EV owners in the coming years. Starting next year, the Inflation Reduction Act will remove the current cap on the number of $7,500 tax credits that are available for each auto manufacturer, meaning that popular EVs will be eligible again. However, there will be a new income cap of $150,000 per individual ($300,000 per couple) to receive the credit.

Starting in 2024, buyers will gain the ability to transfer the tax credit directly to an auto dealer. This means consumers should be able to get $7,500 off of the purchase price at the time of purchase instead of having to pay first and claim the credit on their tax filings later.

Q: My children have already graduated from college, and I have leftover 529 funds. What should I do with them?

Children sometimes thwart our best-laid plans, but having extra money in a 529 college-savings plan is a pretty good outcome. Families can end up with leftover college funds for a variety of reasons, such as when a student gets their education paid for through military service or chooses to pursue a business idea instead of attending college.

As you probably know, 529 plan contributions are made with after-tax money and can offer a state tax benefit depending on where you live and which plan you used. When theyâ??re used for qualifying expenses, distributions are tax-free and penalty-free. But when theyâ??re used for nonqualified distributions, youâ??ll be on the hook for income tax plus a 10 percent penalty on the earnings.

One exception is if the student received a scholarship. In that case, you can withdraw the equivalent amount with no 10 percent penalty, although you will have to pay income tax on the earnings (not the principal).

If you were diligent in saving for college but now have unused funds, there are a number of ways you can use the money with little to no tax consequences.

To maximize 529 plan benefits for leftover funds, first look for another qualified way to use the money, keeping in mind that there is no time or age limit. Might your child pursue a graduate degree or a

different field of study later on? If so, you could leave the funds in the account and let them grow tax-free.

Otherwise, consider whether someone else in the family might have educational expenses coming up. The 529 plan owner can change the beneficiary to another family member at any time with no tax consequences. And the definition of family includes a sibling, spouse, child, cousin, son- or daughter-in-law, brother- or sister-in-law, aunt, uncle, niece, nephew, and many other relatives. Youâ??re even allowed to make yourself the beneficiary.

Qualified expenses include undergraduate or graduate tuition at accredited institutions, as well as room, board, books, and computer equipment. In addition, the SECURE Act of 2019 expanded allowed expenses to include Kâ??12 tuition of up to $10,000 per year at a private, public, or religious school.

The SECURE Act also classified student loan payments as a qualifying expense. You can use up to $10,000 per beneficiary toward outstanding education loans. Ideally, someone in your family can take advantage of these funds.

Before you make any decision about your leftover 529 funds, check with your financial and tax advisors to make sure you know the impact on your specific situation. A financial advisor can also help you prevent or minimize overfunding.

Q: Some economists are predicting a recession, and Iâ??m in my early 60s. How could this impact my retirement?

The decision to retire is complex and personal, more so when the stock market is volatile and the economic climate is so uncertain. But all the planning youâ??ve done over the years, such as analyzing various scenarios with your financial advisor, will come to good use in these final years of your career.

Even if gloomy forecasts are making you feel anxious, one of the cardinal rules of investing is to stay invested. Remember: Market timing is a foolâ??s errand. Youâ??d need to have access to a magic crystal ballâ??not just once, but twiceâ??to be able to know just when to get out of the stock market and when to get back in.

Instead of doing anything drastic, consider taking these financial steps to best position your retirement plan in case of a recession.

Take stock of your financial plan. Revisiting and updating your projected household expenses is paramount. That way, youâ??ll have a thorough understanding of the income needs from your portfolio.

You should also work with your financial planner to test the resilience of your nest egg against market fluctuations by rerunning projections and layering on several different what-if scenarios.

Calculate your cash cushion. The amount you need is based on personal preference. Building your portfolio buckets may help you become comfortable with the amount of cash you should hold. We recommend keeping about a yearâ??s worth of expenses in cash as an emergency reserve. As you approach retirement, it can make sense to increase this amount, depending on your other sources of retirement income.

Recessions normally donâ??t last longer than a year. Having a cushion will insulate you from being forced to sell equities in a falling market.

Use tax-loss harvesting. With taxable accounts, itâ??s always prudent tax planning to be proactive about realizing any capital losses. They can be used to reduce your tax bill by offsetting previously realized gains. Anything you can do to give yourself an edge will help in the long run.

As always, you should speak with your financial and tax advisors about your personal financial situation before you make any decisions. If you donâ??t have a thorough financial plan that addresses your retirement under various market and economic conditions, now is a good time to consider one.

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