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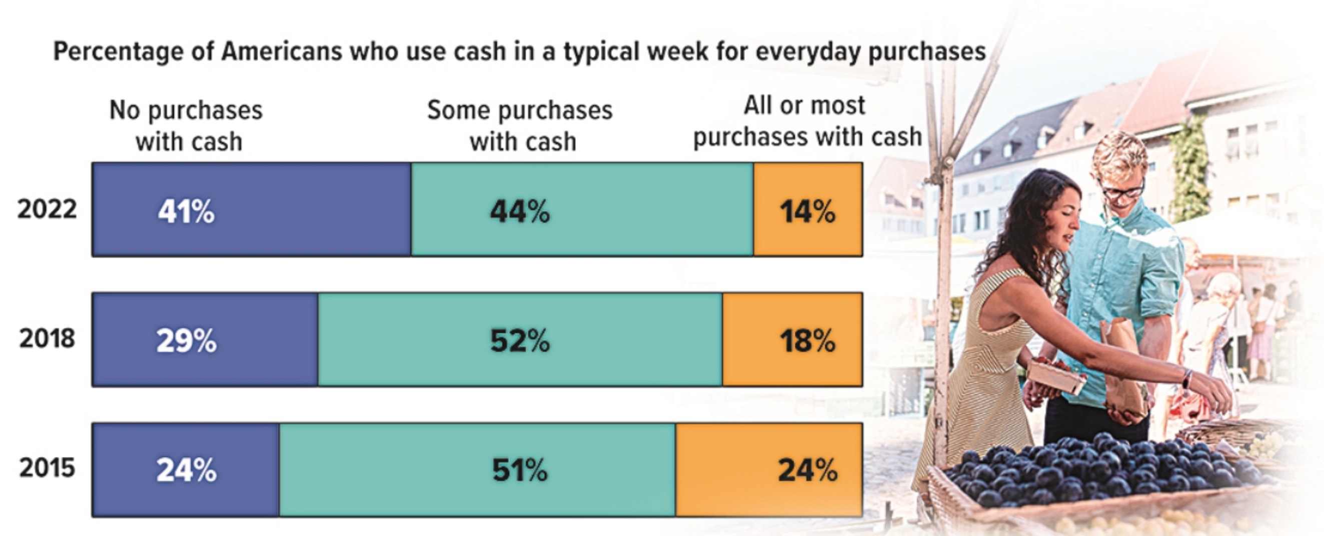
More Americans Embrace the Cashless Economy

A growing number of Americans are going "cashless" for everyday purchases like groceries, gas, services, and meals compared to previous years. A cashless payment might be made using a debit or credit card, or a payment app or mobile wallet on a smartphone.

In 2022, about 41% of Americans said none of their purchases in a typical week were paid for using cash, up from 29% in 2018 and 24% in 2015. Among affluent households, 59% said they didn't use cash for any typical weekly purchases. The trend of not carrying cash varies by age, with 54% of people under age 50 saying they don't worry much about whether they have cash on hand compared to 28% of people 50 and older.



Source: Pew Research Center, 2022 (numbers do not equal 100% due to rounding)

Give Your Money a Midyear Checkup

If 2023 has been financially challenging, why not take a moment to reflect on the progress you've made and the setbacks you've faced? Getting into the habit of reviewing your finances midyear may help you keep your financial plan on track while there's still plenty of time left in the year to make adjustments.

Goal Overhaul

Rising prices put a dent in your budget. You put off a major purchase you had planned for, such as a home or new vehicle, hoping that inventory would increase and interest rates would decrease. A major life event is coming up, such as a family wedding, college, or a job transition.

Both economic and personal events can affect your financial goals. Are your priorities still the same as they were at the beginning of the year? Have you been able to save as much as you had planned? Are your income and expenses higher or lower than you expected? You may need to make changes to prevent your budget or savings from getting too far off course this year.

Post-Tax Season Estimate

Completing a midyear estimate of your tax liability may reveal planning opportunities. You can use last year's tax return as a basis, then factor in any anticipated adjustments to your income and deductions for this year.

Check your withholding, especially if you owed taxes or received a large refund. Doing that now, rather than waiting until the end of the year, may help you avoid a big tax bill or having too much of your money tied up with Uncle Sam.

You can check your withholding by using the IRS Tax Withholding Estimator at irs.gov. If necessary, adjust the amount of federal income tax withheld from your paycheck by filing a new Form W-4 with your employer.

Investment Assessment

Review your portfolio to make sure your asset allocation is still in line with your financial goals, time horizon, and tolerance for risk. How have your investments performed against appropriate benchmarks, and in relationship to your expectations and needs? Looking for new opportunities or rebalancing may be appropriate, but be cautious about making significant changes while the market is volatile.

Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. All investing involves risk, including the possible loss of principal and there is no guarantee that any investment strategy will be successful.

More to Consider

Here are five questions to consider as part of your midyear financial review.

Retirement Savings Reality Check

If the value of your retirement portfolio has dipped, you may be concerned that you won't have what you need in retirement. If retirement is years away, you have time to ride out (or even take advantage of) market ups and downs. If you're still saving for retirement, look for opportunities to increase retirement plan contributions. For example, if you receive a pay increase this year, you could contribute a higher percentage of your salary to your employer-sponsored retirement plan, such as a 401(k), 403(b), or 457(b) plan. If you're age 50 or older, consider making catch-up contributions to your employer plan. For 2023, the contribution limit is $22,500, or $30,000 if you're eligible to make catch-up contributions.

If you are close to retirement or already retired, take another look at your retirement income needs and whether your current investment and distribution strategy will provide enough income. You can't control challenging economic cycles, but you can take steps to help minimize the impact on your retirement.

SECURE 2.0 Act Expands Early Withdrawal Exceptions

Tax-advantaged retirement accounts such as 401(k) plans and IRAs are intended to promote long-term retirement savings and thus offer preferential tax treatment in return for a commitment to keep savings in the account until at least age 59½. Withdrawals before that age may be subject to a 10% federal income tax penalty on top of ordinary income tax. However, there is a long list of exceptions to this penalty, including several new ones added by the SECURE 2.0 Act of 2022.

Before considering these exceptions, keep in mind that the greatest penalty for early withdrawal from retirement savings could be the loss of future earnings on those savings (see chart). Even so, there are times when tapping retirement savings might be necessary.

Some employer plans allow loans that may be a better solution than an early withdrawal. If a loan or other resources are not available, these exceptions could help. They apply to both employer-sponsored plans and IRAs unless otherwise indicated.

New Exceptions

The SECURE 2.0 Act added the following exceptions to the 10% early withdrawal penalty. Withdrawals covered by these exceptions can be repaid within three years. If the repayment is made after the year of the distribution, an amended return would have to be filed to obtain a refund of any taxes paid.

- **Disaster relief** — up to $22,000 for expenses related to a federally declared disaster; distributions can be included in gross income equally over three years (effective for disasters on or after January 26, 2021)
- **Terminal illness** — defined as a condition that will cause death within seven years as certified by a physician (effective 2023)
- **Emergency expenses** — one distribution of up to $1,000 per calendar year for personal or family emergency expenses; no further emergency distributions allowed during three-year repayment period unless funds are repaid or new contributions are at least equal to the withdrawal (effective 2024)
- **Domestic abuse** — the lesser of $10,000 (indexed for inflation) or 50% of the account value for an account holder who certifies that he or she has been the victim of domestic abuse during the preceding one-year period (effective 2024)

Exceptions Already in Place

These exceptions to the 10% early withdrawal penalty were in effect prior to the SECURE 2.0 Act. They cannot be repaid unless indicated.

- Death or permanent disability of the account owner
- A series of substantially equal periodic payments for the life of the account holder or the joint lives of the account holder and designated beneficiary
- Unreimbursed medical expenses that exceed 7.5% of adjusted gross income
- Up to $5,000 for expenses related to the birth or adoption of a child; can be repaid within three years
- Distributions taken by an account holder on active military reserve duty; can be repaid up to two years after end of active duty
- Distributions due to an IRS levy on the account
- (IRA only) Up to $10,000 lifetime for a first-time homebuyer to buy, build, or improve a home
- (IRA only) Health insurance premiums if unemployed
- (IRA only) Qualified higher education expenses

Lost Opportunity

An early retirement plan withdrawal could end up costing more than you might imagine, even without the 10% penalty. Income taxes will reduce the present value of the withdrawal, and you will lose the potential long-term growth on the amount withdrawn.

This hypothetical example is used for illustrative purposes only and does not represent the performance of any specific investment. Fees and expenses are not considered and would reduce the performance shown if they were included. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Special Exceptions for Employer Accounts

The 10% penalty does not apply for distributions from an employer plan to an employee who leaves a job after age 55, or age 50 for qualified public safety employees. SECURE 2.0 extended the exception to public safety officers with at least 25 years of service with the employer sponsoring the plan, regardless of age, as well as to state and local corrections officers and private-sector firefighters.

Retirement account withdrawals can have complex tax consequences. Consult your tax professional before taking specific action.

Home Energy Tax Credits

A couple of federal personal tax credits are available for the installation of certain energy efficient or clean energy property in your home. The energy efficient home improvement credit is available for qualifying expenditures incurred for an existing home or for an addition to or renovation of an existing home, but not for a newly constructed home. The residential clean energy property credit is available for qualifying expenditures incurred for either an existing home or a newly constructed home. For both credits, the home must be located in the United States and used as a residence by the taxpayer.

Energy Efficient Home Improvement Credit

The energy efficient home improvement credit is equal to 30% of the sum of amounts paid by the taxpayer for certain qualified expenditures. There are limits on the allowable annual credit and on the amount of credit for certain types of qualified expenditures. The maximum annual credit amount may be up to $3,200.

An annual $1,200 aggregate credit limit applies to all building envelope components, energy property, and home energy audits (30% of costs up to $150 for such audits). Building envelope components include exterior doors (30% of costs up to $250 per door, up to a total of $500); exterior windows and skylights (30% of costs up to $600); and insulation materials or systems and air sealing materials or systems (30% of costs).

Energy property (30% of costs, including labor, up to $600 for each item) includes central air conditioners; natural gas, propane, or oil water heaters, furnaces, and hot water boilers; and certain other improvements or replacements installed in connection with building envelope components or other energy property.

A separate annual $2,000 aggregate credit limit (30% of costs, including labor) applies to electric or natural gas heat pump water heaters; electric or natural gas heat pumps; and biomass stoves and boilers.

The credit is not available after 2032.

Residential Clean Energy Property Credit

A 30% credit is available for certain qualified expenditures made by a taxpayer for residential clean energy property. This includes expenditures for solar panels, solar water heaters, fuel cell property, wind turbines, geothermal heat pump property, battery storage technology, and labor costs allocable to such property.

There is no overall dollar limit for this credit. For qualified fuel cell property, there is a general credit limit of $500 for each half kilowatt of capacity. The credit is reduced to 26% for property placed in service in 2033, 22% for property placed in service in 2034, and no credit is available for property placed in service after 2034.