Newsletter 2024 Q1

Things You Can Do for Your Future as the Year Unfolds

What financial, business, or life priorities do you need to address for the coming year? Now is an excellent time to think about the investing, saving, or budgeting methods you could employ toward specific objectives, from building your retirement fund to considering an estate strategy. You have plenty of choices.

Remember that this article is for informational purposes only and not a replacement for real-life advice. The tax treatment of assets earmarked for retirement can change, and there is no guarantee that the tax landscape will remain the same in years ahead. A financial or tax professional can provide up-to-date guidance.

Here are a few ideas to consider:

Can you contribute more to your retirement plans this year? In 2024, the contribution limit for a Roth or traditional individual retirement account (IRA) remains at $7,000 ($8,000 for those making "catch-up" contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA. With a traditional IRA, you can contribute if you (or your spouse if filing jointly) have taxable compensation. Income limits are one factor in determining if a traditional IRA contribution is tax-deductible.[1]

Once you reach age 73, you must take the required minimum distributions from a traditional IRA. The I.R.S. taxes withdrawals as ordinary income, and if taken before age 59½, they may be subject to a 10% federal income tax penalty.

Roth 401(k)s offer their investors a tax-free and penalty-free withdrawal of earnings. Qualifying distributions must meet a five-year holding requirement and occur after age 59½. Such a withdrawal also qualifies under certain other circumstances, such as the owner's passing. Employer match is pretax and not distributed tax-free during retirement. The original Roth IRA owner is not required to take minimum annual withdrawals.

Make a charitable gift. You may be able to claim the deduction on your tax return, provided you follow the Internal Review Service guidelines. The paper trail can be important here. If you give cash, you should consider documenting it. A bank record can demonstrate some contributions, payroll deduction records, credit card statements, or written communication from the charity with the date and amount. Incidentally, the IRS does not equate a pledge with a donation. If you pledge $2,000 to a charity this year but only end up gifting $500, you may be able to only deduct $500.[2]

Consult your tax, legal, or accounting professional before modifying your record-keeping approach or strategy for making charitable gifts.

See if you can take a home office deduction for your small business. You may want to investigate this if you are a small business owner. You might be able to write off expenses linked to the portion of your home used to conduct

your business. Using your home office as a business expense involves complex tax rules and regulations. Before moving forward, consider working with a professional familiar with the tax rules related to home-based businesses.

Open an HSA. A Health Savings Account (HSA) works like your workplace retirement account. There are also some HSA rules and limitations to consider. You are limited to a $4,150 contribution for 2024 if you are single; and $8,300 if you have a spouse or family. Those limits jump by a $1,000 "catch-up" limit for each person in the household over age 55.[3]

If you spend your HSA funds for non-medical expenses before age 65, you may need to pay ordinary income tax and a 20% penalty. After age 65, you may need to pay ordinary income taxes on HSA funds used for non-medical expenses. HSA contributions are exempt from federal income tax; however, they are not exempt from state taxes in certain states.

Pay attention to asset location. Asset location is one factor to consider when creating an investment strategy. Asset location is different from asset allocation, which is an approach to help manage investment risk. Asset allocation does not guarantee against investment loss.

Review your withholding status. Should it be adjusted due to any of the following factors?

- You tend to pay the federal or state government at the end of each year.
- You tend to get a federal tax refund each year.
- You recently married or divorced.
- You have a new job with adjusted earnings.

Consider consulting your tax, human resources, or accounting professional before modifying your withholding status.

Did you get married in 2023? If so, it may be time to review the beneficiaries of your retirement accounts and other assets. The same goes for your insurance coverage. If you are preparing to have a new last name in 2024, you should get a new Social Security card. Additionally, retirement accounts may need to be revised or adjusted.

Are you coming home from active duty? If so, go ahead and check on the status of your credit. Check on any other orders that you might have preempted, too.

Consider the impact of any upcoming transactions. Are you preparing to sell any real estate this year? Are you starting a business? Might any commissions or bonuses come your way in 2024? Do you anticipate selling an investment held outside of a tax-deferred account?

Vow to focus on your overall health and practice sound financial habits in 2024. And don't be afraid to ask for guidance from a professional who understands your situation.

Sources:

1. TheFinanceBuff.com, August 10, 2023

2. IRS.gov, June 5, 2023

3. IRS.gov, September 5, 2023

When Should You Take Social Security

The Social Security program allows you to start receiving benefits as soon as you reach age 62. The question is, should you?

Monthly payments differ substantially depending on when you start receiving benefits. The longer you wait (up to age 70), the larger each monthly check will be. The sooner you start receiving benefits, the smaller the check.

From the Social Security Administration's point of view, it's simple: if a person lives to the average life expectancy, the person will eventually receive roughly the same amount in lifetime benefits, no matter when they choose to start receiving them. In actual practice, it's not quite that straightforward, but the principle holds.

The key phrase is "if the person lives to average life expectancy." If a person exceeds the average life expectancy and has opted to wait to receive benefits, they will start to accumulate more from Social Security.

The chart shows how Social Security benefits accumulate for individuals who started to receive at ages 62, 67, and 70. The person who started to receive benefits at age 62 would accumulate $384,451 by the age of 85. Conversely, the person who started to receive benefits at age 70 would accumulate $454,019 by the age of 85. The example assumes a retirement benefit of $1,907 at age 67. It does not assume COLA.

Source: Social Security Administration, 2024

There is no single "right" answer to the question of when to start benefits. Many base their decision on family considerations, economic circumstances, and personal preferences.

If you have a spouse, the decision about when to start benefits gets more complicated – particularly if one person's earnings are considerably higher than the other's. The timing of spousal benefits should be factored into your decision.

When considering at what age to start Social Security benefits, it may be a good idea to review all the assets you have gathered for retirement. Some may want the money sooner based on how assets are positioned, while others may benefit by waiting. So, as you near a decision point, it may be best to consider all your options before moving forward.

A Decision Not Made Is Still a Decision

Whether through inertia or trepidation, investors who put off important investment decisions might consider the admonition offered by motivational speaker Brian Tracy, "Almost any decision is better than no decision at all."

This investment inaction is played out in many ways, often silently, invisibly, and with potential consequences to an individual's future financial security.

Let's review some of the forms this takes.

Your 401(k) Plan

One of the worst decisions may be the failure to enroll. Not only do non-participants miss out on one way to save for their retirement, but they also forfeit any potential employer-matching contributions. Not participating can be a costly decision. But under the SECURE 2.0 Act, employers will be required to automatically enroll employees in retirement plans starting in 2025.[1]

The other way individuals let indecision get the best of them is by not selecting the investments for the contributions they make to the 401(k) plan. When a participant fails to make an investment selection, the plan may have provisions for automatically investing that money. And that investment selection may not be consistent with the individual's time horizon, risk tolerance, and goals.

In most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 73. Withdrawals from your 401(k) or other defined contribution plans are taxed as ordinary income, and if taken before age 59½, may be subject to a 10 percent federal income tax penalty.

Non-Retirement Plan Investments

For homeowners, "stuff" just seems to accumulate over time. The same may be true for investors. Some buy investments based on articles they have read or based on the recommendations of a family member. Others may have investments held in a previous employer's 401(k) plan.

Over time, we can end up with a collection of investments that may have no connection to our investment objectives. Because of the dynamics of the markets, an investment that may have once made good sense at one time may no longer be advantageous today.

By not periodically reviewing what we own, which would allow us to cull inappropriate investments – or even determine if the portfolio reflects our current investment objectives – we are making a default decision to own investments that may be inappropriate.

Whatever your situation, your retirement investments require careful attention and may benefit from deliberate, thoughtful decision-making. Your retired self will be grateful that you invested the time … today.

1. Investopedia.com, January 6, 2023. The auto-enroll feature does not apply to companies with 10 or fewer employees. Also, new companies in business for less than three years are exempt from the rule.

2023 IRA Deadlines Are Approaching

What You Need to Know

Financially, many of us associate the spring with taxes—but we should also associate December with important Individual Retirement Account (IRA) deadlines. This year, like 2024, will see a few changes and distinctions.

Remember, this article is for informational purposes only. It is not a replacement for real-life advice, so consult your tax, legal, and accounting professionals for the most up-to-date information about IRA account deadlines and contribution strategies.

The deadline to take your Required Minimum Distribution from traditional IRAs is December 31, 2024.

The deadline for making 2023 annual contributions to a traditional IRA, Roth IRA, and certain other retirement accounts is April 15, 2024.[1]

Some people may not realize when they can make their IRA contribution. You can make a yearly IRA contribution between January 1 of the current year and April 15 of the next year. Accordingly, you can make your IRA contribution for 2024 any time from January 1, 2024, to April 15, 2025.[1]

A person can open or contribute to a Traditional IRA past age 72 as long as they have taxable income.[2]

If you make a 2023 IRA contribution in early 2024, you must tell the investment company hosting the IRA account for which year you contribute. If you fail to indicate the tax year that the contribution applies to, the custodian firm may make a default assumption that the contribution is for the current year (and note exactly that to the IRS).

So, write "2024 IRA contribution" or "2023 IRA contribution," as applicable, in the memo area of your check, plainly and simply. Be sure to write your account number on the check. If you make your contribution electronically, double-check that these details are present.

Sources:

1. IRS.gov, November 22, 2023

https://www.irs.gov/newsroom/savers-credit-can-help-low-and-moderate-income-taxpayers-to-save-more-in-2024#:~:text=Contribution%20deadlines,Roth%20and%20traditional%20IRAs%20qualify.

2. IRS.gov, July 5, 2023

https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits

April is Financial Literacy Month! 🌟💡 Let's take a moment to celebrate the importance of understanding our finances and making smart money choices. 💪💡 Whether you're a finance wizard or just starting to dip your toes into the world of money management, this month is the perfect time to enhance your financial knowledge and skills. 📚💡 From budgeting and saving to investing and preparing for the future, there's much to learn and explore! 💡✨ Consider spreading the word and tag your friends who might benefit from this financial journey. Together, we can build a community that rocks at managing our money! Happy Financial Literacy Month, everyone! 🎉💡
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