Bennett Associates Wealth Management

2025 Q1

Welcome To 2025!

1ST QUARTER DATES TO REMEMBER:

New Year's Day **(markets closed)**	JAN 1
2025 Tax Season Begins	JAN 1
2025 Social Security Changes	JAN 1
Medicare Changes	JAN 1
4th Quarter Estimated Tax Payment Due	JAN 15
Martin Luther King Day **(markets closed)**	JAN 20
President's Day **(markets closed)**	FEB 17

These newsletter articles are authored and brought to you by

Bennett Associates Wealth Management

New Limits...

Contributions and retirement benefits for qualified retirement plans and Individual Retirement Arrangements (IRAs) include some adjustments this year (see 2024 vs 2025 limits). Beginning in 2025, individuals ages 60 to 63 will be eligible for increased catch-up contributions in their retirement plans (see Enhanced Catch Up limit below).

Limit	2024	2025
401(k), 403(b), 457(b) Plan Deferral Limit	$23,000	$23,500
401(k), 403(b), 457(b) Catch-up Limit	$7,500	$7,500
401(k), 403(b), 457(b) Enhanced Catch-Up (ages 60-63)	$0	$11,250
SIMPLE Plan Deferral Limit	$16,000	$16,500
SIMPLE Plan Catch-up Limit	$3,500	$3,500
Traditional and Roth IRA Contribution Limit	$7,000	$7,000
Traditional and Roth IRA Catch-up Limit	$1,000	$1,000

Although not a formal retirement plan, health savings accounts (HSA) often factor into retirement savings. These accounts apply to individuals under a high deductible health plan (HDHP). The minimum deductibles and maximum out-of-pocket expenses the IRS uses to define HDHPs are outlined below along with the HSA contribution limits.

Limit	Individual		Family	
	2024	2025	2024	2025
HSA Contribution Limits	$4,150	$4,300	$8,300	$8,550
Minimum Deductible for HDHPs	$1,600	$1,650	$3,200	$3,300
Maximum Out-of-Pocket Expenses	$8,050	$8,300	$16,100	$16,600

Other noteworthy increases for 2025 come from the Social Security Administration (SSA). The SSA announced an increase in the taxable wage base (TWB) from $168,600 in 2024 to $176,100 in 2025. Workers pay Social Security tax on wages up to the TWB. And for those of you already collecting your social security benefit, the SSA announced a 2.5% increase to your benefit beginning in 2025.

Questions & Answers ...

Q&A...

Q: What is the due date for Form 1099-R for my IRA distributions?

A: Form 1099-R must be sent to recipients by January 31 of the year following the tax year. Therefore, Form 1099-R must be sent by January 31, 2025.

Q: When should I expect to receive Form 1099-B for my investment accounts?

A: Form 1099-B reports proceeds from the sale of securities or property, such as stocks, bonds, mutual funds, commodities, and collectibles. The form is filed by the broker facilitating your transaction and it helps you determine capital gains and/or losses for tax purposes. To avoid excessive updates and amendments, this form is due by February 15th, not the end of January like many other tax forms. You may want to keep this in mind when setting an appointment for your 2024 tax preparation.

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Our Services …

Retirement Planning

- *Retirement Goal Setting*
- *Cash Flow Analysis*
- *RMD and Withdrawal Strategies*
- *Roth Conversions*
- *Socials Security and Pension Analysis*

Investment Planning

- *Asset Allocation*
- *Withdrawal Strategies*
- *Account Consolidation*

Tax Planning

- *Tax Sensitive Investing*
- *Review of Realized and Unrealized Gains*
- *Tax Loss Harvesting*
- *Roth Conversion Opportunities*
- *Tax Return Review*

Trust & Estate Planning

- *Minimize Estate Taxes*
- *Analyze Trust Needs*
- *Analyze stepped up cost-basis for highly appreciated assets*

Assistance to Others

- *Charitable giving through Qualified Charitable Distributions (QCDs)*
- *Charitable giving of appreciated assets*
- *529 College Saving Plans*
- *Donor-Advised Funds*

U.S. History of The Top Marginal Tax Brackets

The U.S. Constitution originally prohibited income taxes so the federal government relied on tariffs and excise taxes for revenue. This changed with the ratification of the 16th Amendment in 1913, allowing the federal government to levy income taxes. The first tax rates were 1% on income above $3,000 ($4,000 for married couples) and escalated to 7% on income over $500,000 (a significant amount at the time).

World War I saw a significant increase in income tax rates, hitting a top rate of 67% in 1917. During the 1920s, tax rates fluctuated and decreased, with the top marginal tax rate ranging from 25% to 63%.

In response to The Great Depression, The Revenue Act of 1932 raised the top marginal tax rate to 63% and by 1936, the top rate reached 79%.

World War II caused a dramatic increase in tax rates, with the Revenue Act of 1942 raising the top rate to 88% on incomes above $200,000. In 1944, the top rate peaked at 94% on income over $200,000. This era marked a significant expansion of the tax system, with millions of Americans paying income taxes for the first time. After the war, the top rate remained high with the top marginal tax rate at 91% by 1951.

The 1960s and 1970s saw a gradual decrease in top tax rates, but the most dramatic change occurred in the 1980s under The Economic Recovery Tax Act of 1981 which lowered the top rate from 70% to 50%. The Tax Reform Act of 1986 lowered the top rate to 28%, the lowest it had been since the 1920s. In 1993, the top rate was increased to 39.6% as part of a balanced budget agreement.

A series of tax cuts were enacted in the Bush Tax Cuts of 2001 and 2003, lowering the top marginal rate to 35%. In 2013, these cuts were allowed to expire, bringing the top rate back to 39.6%. The Tax Cuts and Jobs Act of 2017 reduced the top rate to 37% which remains in place today.

The U.S. history of marginal tax brackets reflects the country's evolving fiscal and economic policies, with significant changes occurring during times of war, economic crises, and shifting political ideologies.

Americans Lose Trillions In Social Security

In a report from United Income, "The Retirement Solution Hiding in Plain Sight: How Much Retirees Would Gain by Improving Social Security Decisions," researchers state, "retirees will collectively lose $3.4 trillion in potential income that they could spend during their retirement because they claimed Social Security at a financially suboptimal time, or an average of $111,000 per household." The age at which most people claim Social Security is opposite to the age at which they SHOULD claim it.

Nearly all of this income is lost because one or more retirees in a household claim Social Security too early, which means their Social Security benefit is lower than it would be if they had waited. For instance, a person that would receive a $725 monthly benefit if they claimed Social Security at 62 would see that benefit increase to $1,280 if they had delayed until their 70th birthday, an increase of 77%. Spread out across the population of individuals that are claiming Social Security suboptimally, those extra dollars add up to a substantial amount of money.

Only 4% of retirees make the optimal claiming decision! The study found that a claiming age of 62–64 is optimal for only about 8% of adults (primarily those with short life expectancies or the spouses of breadwinners)—yet about 79% of eligible adults in the sample claimed at those ages. A claiming age of 70 is optimal for 71% of primary wage earners—yet only 4% of the adults in the sample claimed at that age.

Although later claiming typically caused wealth to drop during retirees' 60s as they drew down their personal retirement accounts, this wealth drop was more than made up for by the late 70s when Social Security income was higher. In order to isolate the effect of claiming age, the study did not consider the effect of working longer, but in real life, a person who decides to maximize benefits by claiming at 70 might choose to work a few years longer, and this would mitigate some or all of the wealth drop in their 60s.

At Bennett Associates, we believe that households contemplating Social Security strategies can benefit from a customized analysis that shows the lifetime impact of the various claiming options. With the help and advice of a financial professional, you have a shot at being one of the 4% who end up making optimal Social Security claiming decisions. Not only will this increase your Social Security income, but it may also lead to higher income and wealth from other sources as well.