FEBRUARY

2025

THE ROAD TO RETIREMENT

OUR MONTHLY GUIDE TO EVERY MILEPOST, JUNCTION, AND LANDMARK ON YOUR ROAD TO RETIREMENT.

THIS ISSUE

What's On Our Minds This Month
Pg. 1

What's Around the Bend:
Maximizing Social Security
Pg. 2

What's Over the Next Hill:
Retirement Income Taxes
Pg. 4

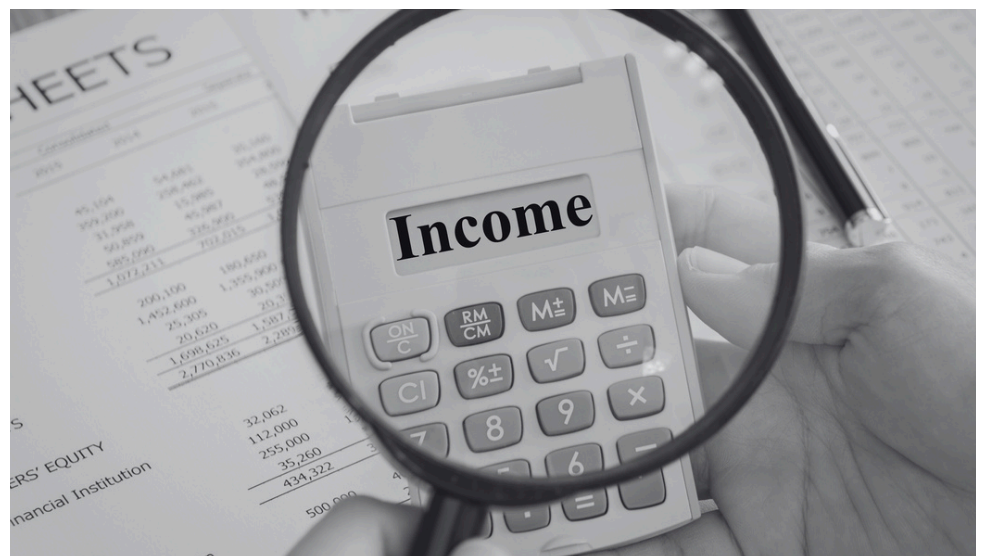
What's On the Horizon:
Exploring Additional Income Sources
Pg. 6

Watching the Weather:
Market Conditions on the Road to Retirement
Pg. 7

WHAT'S ON OUR MINDS THIS MONTH

Income is almost always a chief area of concern for most retirees. For that reason, we have devoted the last few issues of The Road to Retirement to the topic of income planning. This month, we finish the series by devoting each article to a different source or strategy regarding income in retirement.

Have a great month!



WHAT'S AROUND THE BEND:
MAXIMIZING SOCIAL SECURITY

When it comes to income, few sources are more important — or more dependable — than Social Security, and guess what? There are ways to potentially maximize your Social Security benefits, thereby increasing your post-retirement income.

In previous editions, we discussed waiting until your Full Retirement Age and claiming spousal benefits as potential ways to maximize your benefits. In this article, we'll do a fast "lightning round" of additional methods that may or may not apply to you, but that you should definitely be aware of.

CLAIM DEPENDENTS: If you qualify for Social Security benefits and still have dependent children under the age of 16 or a severely disabled dependent younger than 22, you may be able to claim additional Social Security payments to help care for them.

CLAIM SURVIVOR BENEFITS: Imagine a hypothetical married couple. Let's say that both claimed Social Security based on their own earnings records. Now let's say that the husband dies, leaving the wife behind. Under certain circumstances, the wife can file to receive her husband's benefit or increase her own benefit to the same amount that her husband received, if that number is greater.

MINIMIZE TAXES: According to the Social Security Administration, about 40% of people who receive benefits must pay federal income taxes on those benefits. This usually occurs when you receive significant income alongside your benefits. (For example, from wages, dividend payments, interest payments, rental income, etc.) If this is the case, it's worth taking a close look at all your sources of income *and* your Social Security taxes.

QUOTES WE'VE BEEN THINKING ABOUT:

"Always bear in mind that your own resolution to succeed is more important than any other."

— ABRAHAM LINCOLN

That way, you can determine if it's worth reducing some of your income in order to minimize the taxes on your benefits.

SCRUTINIZE YOUR STATEMENTS: After you begin receiving benefits, you will receive a Social Security statement each year. It's worth taking the time to double-check your statement for any mistakes or inaccuracies made by the government that could be affecting your benefits. Since your benefits are based on the average income you earned throughout the 35 highest earning years of your life, even one error can make a big difference.

WHAT'S OVER THE NEXT HILL:
RETIREMENT INCOME TAXES

When pondering income in retirement, it's easy to focus primarily on what's coming in, not what's going out — especially in the form of taxes.

Minimizing taxes on your retirement income is often just as powerful as earning more income altogether. Fortunately, there are some simple steps you can take that may help you reduce your tax burden in retirement.

1. Keep Taking Advantage of Tax-Advantaged Accounts

The longer you let tax-deferred accounts like 401(k)s and traditional IRAs go untapped, the longer the funds inside them can grow...and the lower your tax bill for a given year can be.

2. Keep Tabs on Your Tax Bracket

It's very important to track all of your sources of income, how much you are deriving from each source, and *when* you choose to tap into each. That's because, when additional income sources come online, they can potentially bump you into a higher tax bracket. (They can also affect your Social Security taxes, as discussed above.) Sometimes, this can be prevented by rearranging the order in which you draw from various income sources and retirement accounts, and by ensuring you only take what you need to meet expenses and achieve your most important goals.

3. Plan Ahead for RMDs

This step touches on both of the previous steps. If you own a traditional IRA or participate in a 401(k), you will need to begin taking required minimum distributions, aka RMDs, when you turn 73. These distributions can potentially bump you into a higher tax bracket.

FUN FINANCIAL FACT

Social Security supports over 65 million Americans a month, with a substantial portion of retirees relying on it for at least 50% of their income, ensuring financial stability in retirement.

SOURCE: SOCIAL SECURITY ADMINISTRATION FACT SHEET

If so, it may be a good idea to start taking smaller distributions earlier so you can spread out your taxable income over a longer period of time.

4. Consider Relocating

While you should never make a huge decision like where you live based on taxes alone, it’s worth noting that some states are tax-friendlier than others. So, if you are ever considering relocating to another state in retirement for lifestyle reasons, you may want to consider that state’s tax laws. If they are more amenable to your situation, that may be just the thing that seals the deal!

WHAT'S ON THE HORIZON:

ADDITIONAL INCOME SOURCES

There are more sources of income out there beyond Social Security and standard investments like bonds and CDs. These additional sources of income are not right for everybody, but they're always worth exploring to see if they fit your situation.

One potential source of income is an **annuity**.

An annuity is a type of insurance contract. In exchange for purchasing the annuity, the buyer receives regular interest payments. These payments are essentially a stream of income that can last either for a set period of time, or for the rest of your life. And until you withdraw funds out of the annuity, or begin taking income payments, any growth in the contract is tax deferred.

There are several types of annuities. **Immediate annuities** start providing payments, well, immediately. Upon purchasing the annuity for a lump sum, regular payouts begin soon after the contract is finalized. **Deferred annuities** set a specific age at which payments will start, often years in the future. The reason for this is to give time for the money in the annuity to grow. (In addition, the purchase price of a deferred annuity is often lower than that of an immediate annuity.)

Beneath these two categories are several subtypes. **Fixed annuities** grant a guaranteed minimum rate of interest, which offers significant protection from any stock market plunges that might occur during the course of your annuity. On the other hand, that protection comes with the risk of not being able to capitalize on a strong market—as you might with **variable annuities**, though the payouts with those do shrink if the market does go south. Finally, with **indexed annuities**, the interest you receive is tied to the performance of a specific index, such as the S&P 500.

Annuities can be a handy way to secure additional income in retirement, but they come with downsides, too. Annuities often come with higher fees than other types of investments, especially variable annuities. Annuities are also relatively illiquid, as the money inside is usually locked up for a set period of time. Withdrawing the money before that period ends can trigger "surrender charges" — essentially, another type of fee. Finally, annuities can be vulnerable to inflation. If consumer prices rise, the interest payments you receive may provide lower purchasing power than when you initially bought the annuity.

Not every type of annuity is right for everyone, and annuities in general may not be the best option. But with these caveats in mind, annuities are certainly worth considering if you want to secure more income in retirement.

WATCHING THE WEATHER: MARKET CONDITIONS ON THE ROAD TO RETIREMENT (JAN-FEB)

Despite a turbulent month, the three major indices all gained ground in January. The S&P 500 rose by 2.7%, and the NASDAQ by 1.6%. The Dow performed the best, rising 4.7%. These gains were driven by much of the same momentum that powered the markets in 2024. However, there were plenty of volatile trading days in January, largely thanks to three factors: Inflation, the possibility of tariffs, and a new, unexpected development in the world of artificial intelligence.

The latest inflation reports for December showed that consumer prices rose slightly compared to the month prior. The Personal Consumption Expenditures (PCE) index, which measures changes in the price of goods and services purchased by all consumers in the United States, came in at 2.6%, compared to 2.4% in November and 2.1% in September. The increase was in line with most expectations, but it's an indicator that prices may be done cooling off at the same rate that we saw in 2024.

On the AI front, a Chinese company known as DeepSeek revealed a new AI model meant to rival well-known services like ChatGPT. Because DeepSeek's model can do many of the things that ChatGPT and others can, and because the company claims to have developed its AI with far less money and with less computing power, many chipmakers and AI companies saw their share prices fall dramatically. As tech companies have powered much of the growth we've seen in recent years, this slide dragged the overall markets with them, although the major indices soon recovered. Time will tell whether this shakeup in one of the world's most competitive industries will have a sustained effect or not.

And finally, right as the month came to an end, the news broke that the White House is levying 25% tariffs on Mexico and Canada, and a 10% tariff on China. This news caused all three indices to end January on a down note.

HERE'S WHAT WE'RE KEEPING AN EYE ON IN FEBRUARY & BEYOND

Tariffs will likely be the single main storyline for the next few months — especially as they can also affect inflation. As Canada and Mexico are two of our largest trading partners, any trade war that erupts could have a significant impact on supply chains, consumer prices, and potentially, economic growth. We will be keeping a close watch on this story to see how it impacts the markets moving forward.