

JANUARY

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THE ROAD TO RETIREMENT

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



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WHAT'S ON OUR MINDS THIS MONTH

Income is one of the most important aspects of any good retirement plan. For that reason, we are devoting this and the next issue of *The Road to Retirement* to the topic of income planning. Each article will be devoted to a different source or strategy regarding income in retirement.

On behalf of our entire team, I hope you had a great holiday season, and a wonderful start to 2025!

Happy
New Year

WHAT'S AROUND THE BEND: MAXIMIZING SOCIAL SECURITY



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

One important method is to claim a spousal benefit. You see, married individuals can claim Social Security based on either their personal earnings record (in other words, their own work history) or on their spouse’s earnings record. If a married individual chooses the latter, they could receive [up to 50% of their spouse’s benefit](#).

Why choose to claim benefits based on 50% of your spouse’s earnings record rather than your own? Simple: because you can claim whichever number is higher. If, for example, you don’t have enough Social Security credits to get benefits on your own work record – or if you didn’t work long enough to earn a significant benefit for yourself – than claiming spousal benefits may be the right option.

Now, it’s important to keep in mind that a spousal benefit is up to 50% of your spouse’s full retirement age benefit. The chart below shows each person’s FRA as determined by their birth year:

Year of Birth	Full Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

QUOTES WE'VE BEEN THINKING ABOUT:

“We spend January 1st walking through our lives, room by room, drawing up a list of work to be done, cracks to be patched. Maybe this year, to balance the list, we ought to walk through the rooms of our lives...not looking for flaws but for potential.”

– ELLEN GOODMAN,
PULITZER PRIZE-
WINNING JOURNALIST

The reason this matters is because many people choose to delay claiming their Social Security benefits until after their full retirement age, as benefits increase for each year you wait. However, postponing does not affect their spouse's benefit – it will always be 50% of their full retirement age.

To qualify for a spousal benefit, you must be at least 62 or older or have a child younger than 16 who is either in your care or has a disability.

It's important to know well in advance how much in Social Security benefits married couples are eligible to receive, so each person can determine whether it makes sense to claim their own benefit or their spouse's. Please let us know if you ever need any assistance in estimating your own Social Security benefits.



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.

Everyone knows that taxes don’t end when we retire, of course, but it’s easy to forget what types of taxes we have to pay. Some sources of income are taxed; some are not. And various types of taxable income may be taxed at different rates, in ways that may seem confusing. The following table shows several common sources of retirement income and how they are taxed:

Income Source	Tax Rate
<i>Roth IRA/Roth 401(k)</i>	Distributions are tax free
<i>Traditional IRA/401(k)</i>	Distributions are taxed as ordinary income
<i>Annuity payments, short-term investment gains, bond income, most dividends</i>	Taxed at the same rate as your ordinary income
<i>Social Security Benefits</i>	May be taxed depending on certain conditions. For example, if a married couple files a joint return with a combined income of over \$44,000, up to 85% of their benefits may be taxable.
<i>Long-term investment gains</i>	Taxed at the long-term capital gains rate.

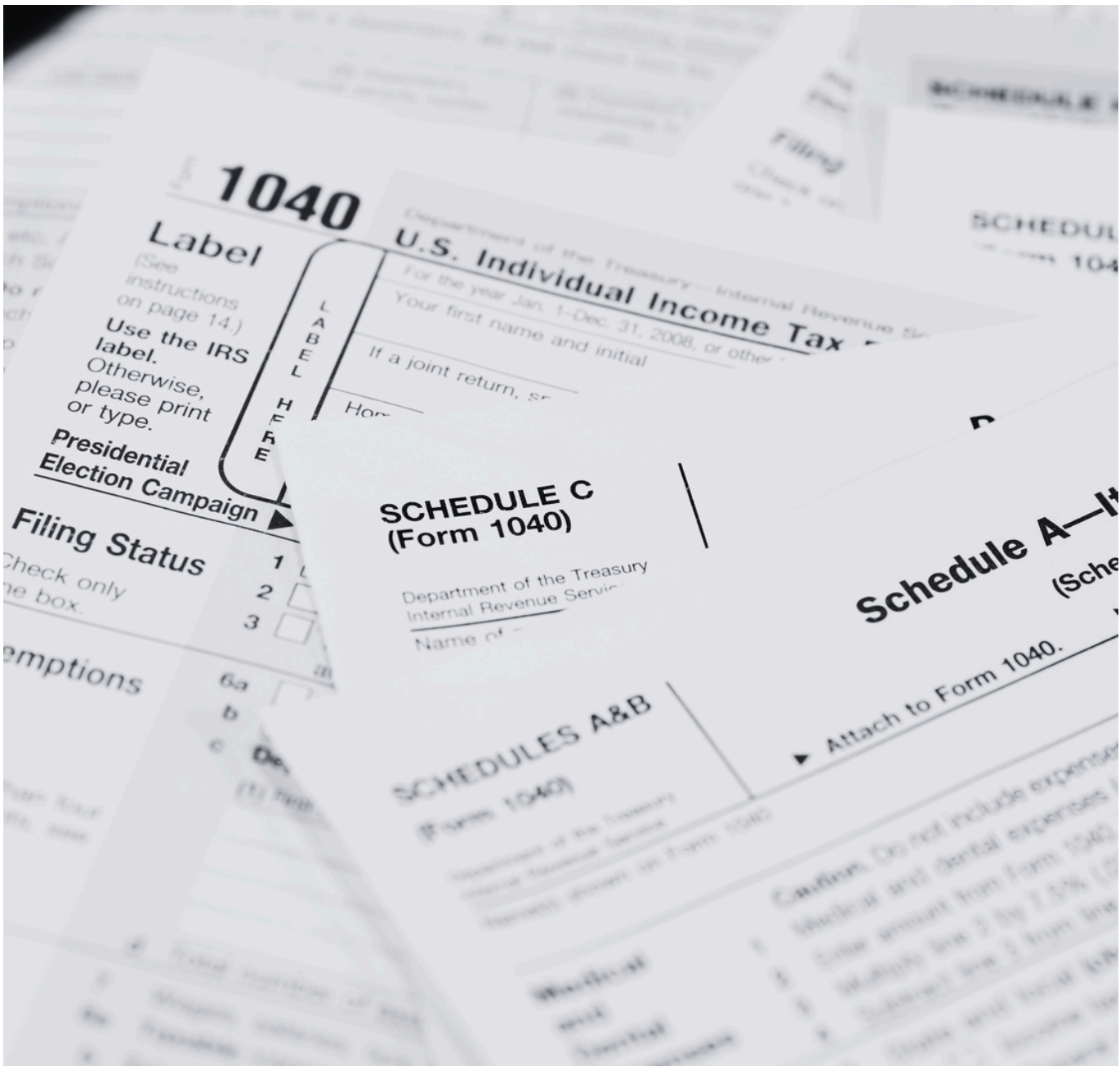
FUN FINANCIAL FACT

Did you know that people aged 60 and older in both the U.S. and Canada are ranked among the happiest in the world? It turns out these really are our “golden years.”

SOURCE: [WORLD HAPPINESS REPORT GALLUP](#)

This is another reason why it's so important to have a plan for where your income will come from in retirement – and what percentage of your income will come from each source. By knowing this, you can plan for how taxes will impact your cash flow...and thus, your overall retirement lifestyle.

In the next issue, we will cover some simple-but-critical ways to potentially minimize taxes in retirement.



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 are **dividend stocks**.

Dividend stocks are where a company pays out a percentage of their profits to their shareholders. Basically, this means that if you invest in a dividend-stock, you are sent a check or receive a direct deposit. What you do with it is completely up to you. (Pay your expenses? Take a trip? Re-invest? You decide.)

Different companies pay different amounts when it comes to dividends, and their schedules may differ, too. For example, some companies pay quarterly dividends, while others annually or semi-annually. But whatever the schedule, dividends can provide you a regular stream of valuable income even after you stop working.

Here's a quick example. Say you own 300 shares in a company that is currently trading at \$100. The company pays a quarterly dividend of 2% per share. Multiply that dividend by the number of shares you own, and *voila!* Owning 300 shares nets you a payment of \$600 each quarter. (Obviously, this example uses nice round numbers, but it gets the point across.)

It's usually recommended that younger investors *reinvest* their dividends, meaning they use the money to buy additional shares instead of keeping it for immediate use. This is one of the most powerful ways to build up your wealth over time. But when you're retired, income is often more important, so it may make more sense to treat your dividends as a kind of quarterly paycheck.

Now, keep in mind that dividends are taxable, and are usually classified as ordinary income. Furthermore, dividends aren't guaranteed – a company may choose to raise, lower, or nix their dividend entirely. But many companies that pay dividends do so because they are large, well-established, and stable. For these reasons, owning dividend stocks are certainly worth considering if you are looking for more income in retirement.

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



Santa Claus never really showed up for the markets in December. [The S&P 500 slid 2.5% for the month, while the Dow fell 5.27%](#). This was largely due to investors selling their holdings to realize some of their profits for the year, but renewed concerns about inflation and interest rates also played a part.

Despite the tepid end to the year, 2024 was a banner year for the markets. Driven by enthusiasm over artificial intelligence and helped by interest rate cuts and falling inflation, the S&P 500 gained over 23% for the year. [The Dow rose over 12%](#).

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

Here are some of the major storylines we'll be studying this year:

- Is the inflation roller coaster truly over? Consumer prices ticked back up in November, and there are some indications that they may rise higher still in the coming months.
- President-elect Trump has promised to levy across-the-board tariffs against China and many other countries. What effect will those tariffs have on the economy, especially inflation?
- Will interest rates continue to fall, or will they remain where they are for a while? In its most recent statement, the Fed [projected only two cuts for 2025](#).
- Much of the market's performance over the last two years has been generated by tech companies, especially those ones investing in AI. However, to date, many AI companies are valued far above what they are actually earning. Will that change in 2025? Will the hype continue, or will it recede somewhat?

2024 marked the first time since 1998 that the S&P 500 saw gains over 20% for two years in a row. For this reason, many investors are full of confidence going into 2025. As always, our team will continue scrutinizing the markets, and we will let you know if we ever feel that confidence should change to concern. In the meantime, have a great month!