



BELL FINANCIAL

# NEWSLETTER



## DO YOU HAVE A NEW YEAR'S RESOLUTION?

One out of three U.S. adults typically plan to make New Year's resolutions. Younger people are more likely to make resolutions, and they tend to place more emphasis on finances, happiness, and mental health, whereas older people tend to emphasize physical health. Experts suggest that it's easier to keep resolutions that are specific and measurable, and it can be helpful to reward yourself for meeting goals along the way.

## THESE WERE THE TOP 10 RESOLUTIONS FOR 2024, RANKED BY THE PERCENTAGE OF ADULTS WHO SAID THEY WOULD SET THESE GOALS.

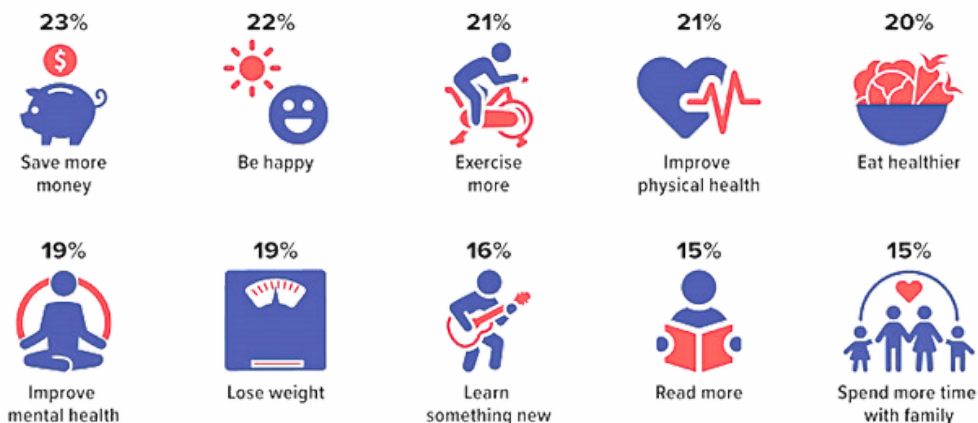
### HELLO FRIENDS,

Happy New Year!

As we step into 2025, it's the perfect time to reflect and set goals for the year ahead. In this edition, we've included articles to help you start strong—whether it's planning New Year's resolutions, navigating an unplanned early retirement, or understanding key market indicators. For those who are self-employed, there's also a piece on optimizing your retirement plans.

We hope you find these insights valuable as you look ahead. Wishing you a happy, healthy, and prosperous new year!

Connor and Jesse



Sources: YouGov, December 21, 2023 (multiple responses allowed); Forbes Health, January 12, 2024

## WOULD YOU BE PREPARED FOR AN UNPLANNED EARLY RETIREMENT?

Most of us would prefer not to think about an unexpected (and unwelcome) early retirement, but it does happen frequently. In fact, nearly half of current retirees retired earlier than planned, and of that group, more than 60% did so due to changes at their company or a hardship, such as disability. <sup>1</sup> For that reason, it's a good idea to take certain steps now to help prepare for the unexpected.

### What you can do now

Save as much as possible in tax-advantaged accounts. If you're forced to retire earlier than planned, your work-sponsored retirement plans, IRAs, and health savings accounts (HSAs) could become critical resources. HSA assets can be used tax-free to pay for qualified medical expenses at any time, and you can generally tap your retirement plan and IRA assets after age 59½ without penalty. Although ordinary income taxes apply to distributions from pre-tax accounts, qualified withdrawals from Roth accounts are tax-free.<sup>2</sup> In addition, the IRS has identified several situations in which retirement account holders may be able to take penalty-free early withdrawals. These include disability, terminal illness, leaving an employer after age 55 (work-based plans only),<sup>3</sup> to pay for unreimbursed medical expenses that exceed 7.5% of your adjusted gross income, and to pay for health insurance premiums after a job loss (IRAs only).

### Pay down debt.

Generally, it's wise to enter retirement (especially when unexpected) with as little debt as possible. Ensuring that your financial plan includes a strategy for paying down student loans, credit card debt, auto loans, and mortgages can help you minimize your income needs later in life.

**Know your bare-bones budget.** Another way to help cushion the shock of an unexpected early retirement is knowing exactly how much you spend each month on your basic necessities, including housing, food, utilities, transportation, and health care. Maintaining a written budget throughout life's ups and downs will help you quickly identify how much income you'd need over the short term while you work on a longer-term income-replacement strategy.

### Maintain adequate levels of disability insurance.

Your employer may offer group coverage at reduced rates; however, you lose those benefits if your employment is terminated. Private disability income insurance can help you secure coverage specific to your needs, and since the premiums are typically paid with after-tax dollars, any benefits would generally be tax-free (unlike work-sponsored coverage that is paid with pre-tax dollars).

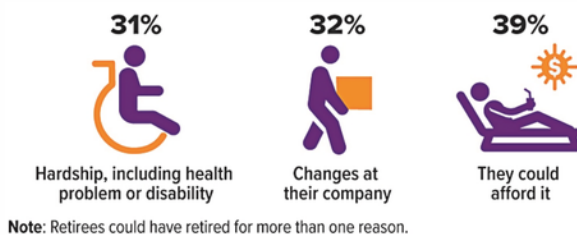
**Understand Social Security benefits.** If you stop working due to disability, you may qualify for Social

Security Disability Insurance benefits if you meet certain requirements. You must have earned a certain number of work credits in a job covered by Social Security and have a physical or mental impairment that has lasted or is expected to last at least 12 months or result in death. If you remain eligible, benefits may continue up to age 65 and then convert to Social Security retirement benefits.

If you need to retire earlier than planned for reasons unrelated to disability and are eligible for Social Security retirement benefits, you can apply as early as age 62. However, starting payments prior to your full retirement age (66 or 67, depending on year of birth) will result in a permanently reduced monthly benefit. For more information on Social Security disability and retirement benefits, visit the Social Security Administration's website at [ssa.gov](http://ssa.gov).

**Consider your health insurance options.** Terminating employment prior to age 65 could leave you without health insurance. You may opt to continue your employer-sponsored health coverage for a limited period (permitted through COBRA, the Consolidated Omnibus Reconciliation Act), although this can be quite expensive. If you're married and your spouse works, you may get coverage under their plan. You may also seek coverage through the federal or a state-based health insurance marketplace. If you receive Social Security disability benefits, you'd automatically qualify for Medicare after 24 months.

### Why 49% of Retirees Retired Earlier Than Planned



Source: Employee Benefit Research Institute, 2024

Don't be caught off guard

Don't wait for an unwelcome surprise. Take steps now to help ensure your overall financial plan considers the "what-if" of an unexpected early retirement.

1) Employee Benefit Research Institute, 2024

2) Qualified Roth withdrawals are those made after a five-year holding period and after the account owner dies, becomes disabled, or reaches age 59½. The penalty for early retirement account distributions and nonqualified withdrawals from Roth accounts is 10%. Nonqualified withdrawals from HSAs will be subject to ordinary income tax and a 20% penalty. After age 65, individuals can take money out of HSAs penalty-free, but regular income taxes will apply to funds not used for qualified medical purposes. 3) Age 50 or after 25 years of service for public safety officers

## THREE MARKET-MOVING ECONOMIC INDICATORS TO WATCH

Among all of the economic indicators released each month, three reports in particular can move the market: the Employment Situation, gross domestic product, and Personal Income and Outlays.

### The Employment Situation

Each month, the Bureau of Labor Statistics (BLS) publishes the Employment Situation Summary report based on information from the prior month. The data for the report is derived primarily from two sources: (1) a survey of approximately 60,000 households, or about 110,000 individuals (household survey), and (2) an establishment survey of over 650,000 worksites. The information contained in each report includes the total number of employed and unemployed people, the unemployment rate, the number of people working full time or part time, average hourly and weekly earnings, and average hours worked per week. According to the BLS, when workers are unemployed, they, their families, and the country as a whole can be negatively impacted. Workers and their families lose wages, and the country loses the goods or services that could have been produced. In addition, the purchasing power of these workers is lost, which can lead to unemployment for even more workers. Investors pay particular attention to the information provided in this report. For instance, a rising unemployment rate may indicate a slowing economy. In this scenario, stock values may decline with falling corporate profits, while bond prices may rise as yields fall in response to lower interest rates. Slower wage growth may also be a sign of lower inflation and interest rates, and reduced economic productivity.

### Gross domestic product

Gross domestic product (GDP) measures the value of goods and services produced by a nation's economy less the value of goods and services used in production. GDP offers a broad measure of the nation's overall economic activity in the U.S. and serves as a gauge of the country's economic health. GDP contains a vast amount of economic information, including gross domestic income (the net of incomes earned and costs incurred in the production of GDP); gross output (the value of the goods and services produced by the nation's economy); gross domestic purchase price index (measures the value of goods and services bought by U.S. residents); personal consumption expenditures (PCE) price index (costs of consumer goods and services); and profits from current production (corporate profits). GDP can offer valuable information to investors, including whether the economy is expanding or contracting, trends in consumer spending, the status of residential and business investing, and whether prices for goods and services are rising or falling. A strong

economy is usually good for corporations and their profits, which may boost stock prices. Increasing prices for goods and services may indicate advancing inflation, which can impact bond prices and yields. In short, GDP provides a snapshot of the strength of the economy over a month and a year and can play a role when making financial decisions.

### Other Important Economic Indicators



- **Unemployment Insurance Weekly Claims report** — provides data on new claims filed, total claims paid, and the unemployment rate



- **Consumer Price Index** — measures changes in the average price of goods and services purchased by consumers



- **Federal Reserve's monthly industrial production index** — measures monthly and annual changes in output in manufacturing, mining, and utilities

### Personal Income and Outlays

The Personal Income and Outlays report measures household income, expenditures, and savings. It also includes data on consumer prices for goods and services. In particular, this report includes data on personal income, disposable (after-tax) personal income, personal consumption expenditures, personal savings, and prices for consumer goods and services as measured by the PCE price index.

In general, consumer spending, which accounts for more than two-thirds of the economy, usually influences market performance. Knowing what consumers are buying (i.e., durable goods, nondurable goods, or services) may offer insight into how various market sectors might perform. Changes in income and spending can have a direct impact on the market. Greater spending usually enhances corporate profits and stock values and vice versa. While the Consumer Price Index may be the more recognized measure of inflation, the PCE price index is the Federal Reserve's preferred measure of inflationary (or deflationary) trends. The rate of inflation and interest rates often move in the same direction because interest rates are the primary tool used by central banks (including the Federal Reserve) to manage inflation. Rising inflation usually prompts the Fed to increase interest rates, while falling inflation (and slowing economic growth) might lead to a decrease in interest rates to promote borrowing and stimulate the economy.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

## TWO TAX-FRIENDLY RETIREMENT PLANS FOR THE SELF-EMPLOYED

As a business owner, you may devote most of your time, energy, and profits to running and growing your business. But working for yourself means that saving money for retirement is entirely up to you. This is not the only reason it may be worthwhile to divert a sizable portion of your earnings to one of these tax-deferred retirement accounts. Doing so could significantly reduce your taxable income.

### **Solo 401(k)**

A solo 401(k) is a one-participant plan for business owners who have no employees (other than a spouse). As the employee, you can contribute as much as 100% of your annual compensation on a pre-tax basis, up to the \$23,000 annual maximum in 2024 (\$30,500 if you are age 50 or older). As the employer, you can also contribute an additional 20% of your earnings (25% if the business is incorporated) and deduct it as a business expense. Total contributions are capped at \$69,000 in 2024 (\$76,500 if age 50 or older).

A solo 401(k) plan may also allow plan loans and/or hardship withdrawals.

The deadline to establish a solo 401(k) and formally elect salary deferrals is December 31 of the year in which you want to receive the tax deduction (or before fiscal year-end for corporations). For businesses taxed as sole proprietors and partnerships, salary deferrals and profit-sharing contributions for 2024 must be

deposited into the account by the April 15, 2025, tax filing deadline\* (October 15 if an extension is filed).

### **SEP IRA**

If you are self-employed, you can contribute 20% of net earnings, up to \$69,000 in 2024, to a Simplified Employee Pension (SEP) plan. A SEP IRA may also be an appropriate choice for business owners with a small number of employees for whom they would like to provide retirement benefits. All employees age 21 and older who have worked for the employer for at least three of the last five years must be included. The plan may exclude employees earning less than \$750 in the current year.

The same percentage of salary (up to 25% of compensation or \$69,000) must be contributed to each eligible employee's SEP IRA, including the owner's. However, the business is not required to contribute every year. You have until the due date of your business's federal income tax return (including extensions) to set up a SEP IRA and make contributions.

Distributions from 401(k) plans and SEP IRAs are taxed as ordinary income. Early withdrawals (prior to age 59½) may be subject to a 10% federal income tax penalty.

\*In Maine and Massachusetts, the tax filing deadline is April 17, 2025, due to state holidays.

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