

JANUARY

2024



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

Happy New Year! Are you ready to turn your 2024 financial goals into reality?

In this season of renewal and rejuvenation, let's embark on a journey of transformation together.

In this edition of "The Road to Retirement," we introduce three essential resolutions to ignite your path towards financial freedom.

Envision each day of 2024 as a brushstroke on the canvas of your life, shaping a masterpiece of your own creation. What will your masterpiece look like?

Our dedicated team is here, ready to support you in transforming your financial dreams into tangible achievements.

As your partners in growth, we're excited to navigate this 365-day adventure with you.

Here's to a year of discovery, joy, and unparalleled success!

WHAT'S AROUND THE BEND: RESOLUTION #1 – GET TO KNOW YOUR 401(K)

A new year means a chance to make some new resolutions. But this year, in addition to the usual goals we all tend to set (like going to the gym, spending more time with family, etc.), I suggest doing something a little different: *Resolve to actually start preparing for retirement.*

One of the best ways to do that is to get to know your 401(k). A 401(k) is one of the most common ways to save for retirement, but many pre-retirees know very little about them other than whether they have one. Here are a few questions to ask regarding your 401(k):

- 1. Look at the menu of investment options in your 401(k).** Have you made your selections purposefully, or did you just accept whatever the plan provider chose for you?
- 2. Many plans allow you to invest at different levels of risk.** Are you investing aggressively, moderately, or conservatively? Do you know the difference? Do you know which is right for you?
- 3. Many 401(k)s are invested in one or more investment funds.** Each of these funds contains a prospectus, which is a document that describes how the fund works, including its objectives, strategy, past performance, and expenses. Have you read your prospectus? Do you understand how the funds in your 401(k) are supposed to work? Do their objectives match their own?
- 4. What will you do with your 401(k) after retirement?** You have three basic options: leave the money where it is, cash out, or roll it over to an IRA/Roth IRA. Do you know which is best for you? A 401(k) is an absolutely indispensable retirement saving tool. If you have one, you owe it to yourself to learn more about how it works, how it's performing, and whether the investments inside are right for you. So, as you set your New Year's Resolutions, put "Getting to know your 401(k)" high up on the list.

QUOTES WE'VE BEEN THINKING ABOUT:

**“Life is like riding
a bicycle. To
keep your
balance, you
must keep
moving.”**

— ALBERT EINSTEIN

WHAT'S OVER THE NEXT HILL: RESOLUTION #2 – DECIDE WHERE YOU WANT TO LIVE IN RETIREMENT

Where you live is one of the most important retirement decisions you will ever make. It affects *everything*. What goals you can accomplish, your lifestyle, how much money you'll need to set aside in monthly expenses...all of this will be impacted by where you choose to live. This is not a decision that has to be made immediately, of course – but it's definitely something you will need to think about sooner or later. And the sooner you think about it, the sooner other parts of your retirement will come into focus.

Many people daydream about living on the beach in retirement. Others just assume they'll stay where they currently are. But this year, resolve to actually start *planning* where you'll live. You can begin by asking yourself the following questions:



1. Do you like the climate of the city where you live now or are planning to move to? Very few people want to shovel snow during their golden years, but you may not want to live in an area with high temperatures and humidity either.



2. What is the cost-of-living and the property-tax rate in your area, or the area you've always dreamed of retiring to? Many a retirement has been ruined by not considering everything that can impact spending. Moving to an area with a lower cost-of-living can be an easy way to get some extra mileage out of your retirement income.



3. Are the housing prices within your budget?



4. Is there good health care within a reasonable distance? This is a concern that grows with time. It might not seem like a big issue at 65, but by the time you get to 75 it could change everything.



5. Does your location offer easy access to activities you enjoy? Most importantly, does it bring you closer to the people you love?

Of course, there are other factors to consider. The point is to start thinking about the issue – it will make all other aspects of retirement that much easier to figure out!

WHAT'S ON THE HORIZON: RESOLUTION #3 – GET YOUR ESTATE PLANS IN ORDER

Over the next few issues of this newsletter, we're going to take a deeper dive into the topic of estate planning. Let's start with an estate planning resolution: Getting certain key documents in order this year. These four are especially important:

POWER OF ATTORNEY: Your PoA allows you to appoint someone to act on your behalf to make legal decisions about your property and finances. That person, usually referred to as an "agent," could be a trusted friend, a family member, or an experienced, reputable professional.

Power of attorney is crucial should you ever become ill or disabled to the point where you can no longer make important decisions yourself. Keep in mind, however, that granting someone power of attorney is a huge decision in and of itself. Give careful thought before making your choice. Whomever you select should be trustworthy, reliable, and mature enough to handle the responsibility.

MEDICAL DIRECTIVES: A second document is your Advance Medical Directive. This catch-all term refers to health care directives, living wills, medical powers of attorney, and other personalized directives. All of these documents allow you to legally express your preference for continued health care should you become terminally ill. Just as important as having a will is keeping it updated. Just as your life is always changing, your will must change with it whenever appropriate.

LETTER OF INSTRUCTIONS: This is a document giving your survivors information about important financial and personal matters to attend to after your passing. You don't need an attorney to prepare it. Although it doesn't carry the legal weight of a will, and is in no way a substitute, your Letter of Instructions will clarify any special requests you want carried out after death.

YOUR WILL: Finally, of course, we have your will. A will states how you want your belongings divvied up amongst your loved ones after you pass away. Otherwise, the government will determine how to distribute your property, which may even end up belonging to the state if you don't have an appropriate will stating otherwise.

Having each of these documents prepared ahead of time can relieve your family of needless worry and expense. Let me know if I can ever help you with any of them!

WATCHING THE WEATHER: KEY NUMBERS AS YOU PLAN FOR 2024

Are you familiar with how our federal tax code originated?

In 1909, progressives in Congress attached a provision for an income tax to a tariff bill. Hoping to kill the idea for good, conservatives proposed enacting such a tax as they believed 75% of states would never ratify a constitutional amendment, according to [the National Archives](#).

Much to their surprise, the 16th Amendment was ratified in 1913, establishing Congress's right to impose a federal income tax. Initially, fewer than 1% of the population paid income taxes. The rate was only 1% of net income due to generous exemptions and deductions.

Clearly, the tax code has changed dramatically over the years, and it will continue to change.

Diving into the details

The Internal Revenue Service announced last year the annual inflation adjustments for more than 60 tax provisions ([63 to be exact](#)) for the tax year 2024, including the tax rate schedules. As incorporated into law, the IRS adjusts various categories to account for inflation.

It's not a perfect measure, but the adjustments help mitigate the impact of inflation on income. Without indexing, a cost-of-living raise, for example, could automatically push you into a higher tax bracket or reduce the value of your standard deduction.

Annual inflation adjustments, however, do not cover all tax provisions.

We won't cover each of the 63 changes. We will touch on the high points. If you have questions, please reach out to us. As always, if you have specific tax questions, feel free to check with your tax advisor.

Please see attached **KEY FINANCIAL DATA 2024** on page 10

1. **Tax brackets and tax rates have changed.** Table 1 highlights the seven separate tax brackets for 2024 for single, married, head-of-household, and married filing separately.

2. **The standard deduction** in tax year 2024 rises to \$29,200 from \$27,700 for those who are married and filing jointly. The standard deduction for single filers and married and filing separately rises to \$14,600 from \$13,850. For head of household, the standard deduction rises to \$21,900 from \$20,800.

If you are 65 or older and single or head of household, you may take an additional deduction of \$1,950. If married and filing jointly or separately, you may take an additional \$1,550.

Changes on the horizon

The Tax Cuts and Jobs Act (TCJA) of 2017 significantly increased the standard deduction, simplifying the filing process, as it eliminated the need for many taxpayers to itemize. But it also scrapped the personal exemption.

Unless extended, please be aware that many provisions of the TCJA will expire at the end of 2025.

Among the expected changes:

- Individual income tax rates will revert to their 2017 levels.
- The standard deduction will be cut roughly in half, the personal exemption will return, and the child tax credit will be reduced.
- The estate tax exemption will be reduced.
- The special 20 percent tax deduction for pass-through businesses will disappear.
- The cap of \$10,000 on state and local income taxes, which is not adjusted for inflation, will disappear. Those who are married but file separately may deduct up to \$5,000 if they itemize.

3. Favorable treatment for long-term capital gains is a cherished tax break for investors. Long-term capital gains, such as the profit on the sale of a stock held for more than one year, are taxed at a more favorable rate than short-term gains. A short-term gain is taxed as if it were ordinary income.

4. The TCJA includes a 20 percent deduction for pass-through businesses. Limits on the deduction begin phasing in for taxpayers with income above \$191,950 and \$383,900 for joint filers in 2024.

5. Other taxes you may be subject to or credits you may capture.

- High-income taxpayers are subject to the **net investment income tax** of 3.8%, levied on the lesser of net investment income or modified adjusted gross income over \$200,000 for single filers and \$250,000 for married filing jointly. These amounts have never been indexed to inflation.

In general, net investment income includes but is not limited to interest, dividends, capital gains, rental and royalty income, and non-qualified annuities, according to the IRS.

Net investment income generally does not include wages, unemployment compensation, Social Security Benefits, alimony, and most self-employment income.

- Congress enacted the **AMT**, or the [alternative minimum tax](#), in 1969 following testimony by the Secretary of the Treasury that 155 people with adjusted gross income above \$200,000 had paid no federal income tax on their 1967 tax returns.

Limits were never adjusted for inflation and, in time, threatened tens of millions with a parallel tax system.

More recently, annual patches were put into place until the TCJA was passed, dramatically increasing the thresholds for avoiding the AMT.

The AMT exemption amount for 2024 is \$85,700 for singles and \$133,300 for married couples filing jointly.

- Exclusions for the **estate, gift, and generation-skipping transfer** will increase from \$12,920,000 in 2023 to \$13,610,000 in 2024.

Higher lifetime-exemption amounts are set to expire at the end of 2025. Unless Congress makes these changes permanent, after 2025 the exemption will revert to the \$5.49 million exemption (adjusted for inflation).

- The **kiddie tax** applies to unearned income, such as dividends or interest, for kids under the age of 19 and college students under 24.

Your child will be required to pay taxes on their unearned income in 2024, but if that amount is more than \$1,300 but less than \$13,000, you may be able to elect to include that income on your return rather than file a separate return for your child.

- The **child tax credit** is \$2,000 for each child that qualifies. The child must be under 17 years old at the end of the year. The refundable amount rises to \$1,700 for tax year 2024, up from \$1,600 in 2023.

A refundable credit means that you can take advantage of the credit above your tax liability, in this case, up to \$1,700.

- For the tax year 2024, you can have a modified adjusted gross income (MAGI) of up to \$252,150 and may qualify for **the adoption credit** of \$16,810 if you incur adoption-related expenses.

The amount of the credit is reduced for taxpayers with a MAGI of more than \$252,150 and is eliminated when your MAGI tops \$292,150.

The credit is nonrefundable, so the amount cannot exceed your tax liability. However, you may apply any excess credit amount to future years, up to five years.

IRA contributions

The **IRA contribution limit for 2024** is \$7,000 for those under age 50, and \$8,000 for those age 50 or older.

You can make 2024 IRA contributions until the federal tax filing deadline for income earned in 2024.

This is up from 2023's limits of \$6,500 for those under age 50, and \$7,500 for those age 50 or older. You can make 2023 IRA contributions until your April 15th federal tax deadline for income earned in 2023.

SEP-IRA limits

You can [contribute up to 25%](#) of the employee's total compensation or a maximum of \$69,000 for the 2024 tax year, whichever is less. That's up from \$66,000 in 2023. If you're self-employed, your contributions are generally limited to 20% of your net income.

We are mindful that the tax code is quite complex. We are happy to answer any questions you may have. Feel free to consult with your tax advisor.

A blockbuster year that wasn't supposed to happen

Last month, we discussed some of the hazards that Wall Street analysts may encounter when forecasting market returns.

On average, strategists predicted roughly a 2% decline for the S&P 500 Index in 2023, according to Bloomberg.

When those who are given such a task encounter difficulties, we are hesitant to provide any predictions regarding the stock market.

When the final returns were tallied, 2023 turned out to be a banner year, surprising nearly everyone.

I trust you have found this information to be informative. If you have any inquiries or wish to discuss any other matters, please don't hesitate to contact me or any team member.

Thank you for choosing us as your financial advisor. We are honored and humbled by your trust.

As we welcome in 2024 may the New Year bring you excitement, adventure, and fulfillment. May the year create cherished memories and be filled with joy. Happy New Year from all of us!

PLEASE CLICK THE IMAGE BELOW TO SEE THE ATTACHED KEY FINANCIAL DATA 2024

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