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CAPITAL, LLC

OAKCREST INSIGHT

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RETIREMENT SEEN THROUGH YOUR EYES

How do you picture your future? Some see retirement as a time to start a new career. Others see it as a time to travel. Still others plan to spend more time with family and friends. With that in mind, here are some things to consider.

What do you absolutely need to accomplish? If you could only get four or five things done in retirement, what would they be? Answering this question might lead you to compile a "short list" of life goals, and while they may have nothing to do with money, the financial decisions you make may be integral to pursuing them.

What would revitalize you? Some people retire with no particular goals at all. After weeks or months of respite, ambition may return. They start to think about what pursuits or adventures they could embark on to make these years special. Others have known for decades what dreams they will follow ... and yet, when the time to follow them arrives, those dreams may unfold differently than anticipated and may even be supplanted by new ones.

In retirement, time is really your most valuable asset. With more free time and opportunity for reflection, you might find your old dreams giving way to new ones.

Who should you share your time with? Here is another profound choice you get to make in retirement. The quick answer to this question for many retirees would be "family." Today, we have nuclear families, blended families, extended families; some people think of their friends or their employees as family.

How much do you anticipate spending? We can't control all retirement expenses, but we can manage some of them. The thought of downsizing your home may have crossed your mind. One benefit of downsizing is that it can potentially lead to no mortgage or a more manageable mortgage payment.

Could you leave a legacy? Many of us would like to give our kids or grandkids a good start in life, but leaving an inheritance can be trickier than many realize. Tax laws are constantly changing, and the strategies that worked years ago may have more limited benefits today.

Keep in mind this article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax or legal professional before modifying any part of your overall estate strategy.

How are you preparing for retirement? This is the most important question of all. If you feel you need to prepare more for the future or reexamine your existing strategy in light of recent changes in your life, conferring with a financial professional experienced in retirement approaches may offer some guidance.

UNDERSTANDING MARGINAL INCOME TAX BRACKETS

By any measure, the tax code is huge. It is over 2,000 pages long, and even longer with footnotes.[1]

And almost weekly, the Internal Revenue Service publishes a 10- to 50-page bulletin about various aspects of the tax code.[2]

Fortunately, it's not necessary to wade through these massive libraries to get a basic understanding of how income taxes work. Knowing a few key concepts may provide a solid foundation.

One of the key concepts is marginal income tax brackets.

Taxpayers pay the tax rate in a given bracket only for that portion of their overall income that falls within that bracket's range.

Tax Works

Seeing how marginal income tax brackets work is helpful because it shows the progressive nature of income taxes. It also helps you visualize how your total tax rate can be calculated. But remember, this material is not intended as tax or legal advice. Please consult a tax professional for specific information regarding your individual situation.

How Federal Income Tax Brackets Work

Say a married couple, filing jointly for the 2024 tax year, had a taxable income of $210,000. Each dollar over $201,050 – or $8,950 – would fall into the 24% federal income tax bracket. However, the couple's total federal tax would be $36,485 – about 17.4% of their adjusted gross income.

This is a hypothetical example used for illustrative purposes only. It assumes no tax credits apply.

2024 Federal Income Tax Brackets

Your federal income tax bracket is determined by two factors: your total income and your tax-filing classification.

For the 2024 tax year, there are seven tax brackets for ordinary income – ranging from 10% to 37% – and four classifications: single, married filing jointly, married filing separately, and head of household.[3]

Citations

1. House.gov, 2024
2. IRS.gov, 2024
3. IRS.gov, 2024

CATCH-UP CONTRIBUTIONS

A recent survey found that 18% of workers are very confident about having enough money to live comfortably through their retirement years. At the same time, 36% are not confident.[1]

In 2001 congress passed a law that can help older workers make up for lost time. But few may understand how this generous offer can add up over time.[2]

The "catch-up" provision allows workers who are over age 50 to make contributions to their qualified retirement plans in excess of the limits imposed on younger workers.

How It Works

Contributions to a traditional 401(k) plan are limited to $23,000 in 2024. Those who are over age 50 – or who reach age 50 before the end of the year – may be eligible to set aside up to $30,500 in 2024.[3]

Setting aside an extra $7,500 each year into a tax-deferred retirement account has the potential to make a big difference in the eventual balance of the account, and by extension, in the eventual income the account may generate.

RETURNS (AS OF 06/30/24)

ASSET CLASS	INDEX	4 WEEK	YTD	1 YEAR	3 YEAR
US Large Cap	S&P 500 TR	3.47%	14.48%	22.70%	8.31%
US Large Cap	Dow Jones TR	1.12%	3.79%	13.69%	4.27%
US Small Cap	Russell 2000 TR	-1.08%	-3.26%	8.42%	-3.95%
International	MSCI EAFE NR USD	-1.74%	3.51%	8.58%	0.14%
Taxable Bonds	Barlcays US Agg Bond TR	0.88%	-0.71%	2.58%	-3.05%

Catch-Up Contributions and the Bottom Line

This chart traces the hypothetical balances of two 401(k) plans. The blue line traces a 401(k) account into which $22,500 annual contributions are made each year. The red line traces a 401(k) account into which an additional $7,500 in contributions are made each year, for a total of $30,500 in contributions a year.

Upon reaching retirement at age 67, both accounts begin making withdrawals of $7,000 a month.

The hypothetical account without catch-up contributions will be exhausted before its beneficiary reaches age 80. Keep in mind, the IRS regularly updates these maximum contribution limits.

This hypothetical example is used for comparison purposes and is not intended to represent the past or future performance of any investment. Fees and other expenses were not considered in the illustration. Actual returns may vary.

Both accounts assume an annual rate of return of 5%. The rate of return on investments will vary over time, particularly for longer-term investments.

In most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 73. Withdrawals from your 401(k) or other defined contribution plans are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty.

Citations

1. EBRI.org, 2023

2. Economic Growth and Tax Relief Act of 2001

3. IRS.gov, 2024. Catch-up contributions also are allowed for 403(b) and 457 plans. Distributions from 401(k) plans and most other employer-sponsored retirement plans are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. In most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 73.

9 FACTS ABOUT RETIREMENT

Retirement can have many meanings. For some, it will be a time to travel and spend time with family members. For others, it will be a time to start a new business or begin a charitable endeavor. Regardless of what approach you intend to take, here are nine things about retirement that might surprise you.

1. Many consider the standard retirement age to be 65. One of the key influencers in arriving at that age was Germany, which initially set its retirement age at 70 and then lowered it to age 65.[1]

2. Every day between now and the end of the next decade, another 10,000 baby boomers are expected to turn 65. That's roughly one person every eight seconds.[2]

3. The 65-and-older population is one of the fastest-growing demographics in the United States. In 2022, there were 58 million Americans aged 65 and older. That number is expected to increase to 82 million by 2050.[3]

4. Ernest Ackerman was the first person to receive a Social Security benefit. In March 1937, the Cleveland streetcar motorman received a one-time, lump-sum payment of 17¢. Ackerman worked one day under Social Security. He earned $5 for the day and paid a nickel in payroll taxes. His lump-sum payout was equal to 3.5% of his wages.[4]

5. Seventy-three percent of retirees say they are confident about having enough money to live comfortably throughout their retirement years.[5]

6. The monthly median cost of an assisted living facility is nearly $5,000, and seven out of ten people will require extended care in their lifetime.[2]

7. Sixty-four percent of retirees depend on Social Security as a major source of their income. The average monthly Social Security retirement benefit as of January 2024 was $1,907.[5,6]

8. Centenarians – there are 108,000 of them as of 2024. By 2053, this number is expected to increase to 513,000.[7]

9. Seniors aged 65 and over spend over four hours a day, on average, watching TV.[8]

Conclusion

These stats and trends point to one conclusion: The 65-and-older age group is expected to become larger and more influential in the future. Have you made arrangements for health care? Are you comfortable with your investment decisions? If you are unsure about your decisions, maybe it's time to develop a solid strategy for the future.

Citations

1. SSA.gov, 2024
2. Genworth.com, 2024
3. PRB.org, 2024
4. Social Security Administration, 2024
5. EBRI.org, 2023
6. SSA.gov, 2024
7. PewResearch.org, January 9, 2024
8. BLS.gov, 2024

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