Kingdom Financial Services November 2024

MarketWise

DREAMING OF RETIREMENT?

"The best time to plant a tree is 20 years ago; the second-best time is now." – Chinese Proverb

"Time in the market beats timing the market." – Ken Fisher

INDEX	YTD	12 MO.
S&P 500	+26.47%	+32.06%
Dow Jones	+19.16%	+24.92%
NASDAQ	+28.02%	+35.09%
Russell 2000	+20.11%	+34.59%

As of Market Close 11/29/2024 Source: Yahoo Finance Charts

"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take $800 and go to Las Vegas." – Paul Samuelson

"Our favorite holding period is forever." – Warren Buffett

"The big money is not in the buying and selling, but in the waiting." – Charlie Munger

"Most investors want to do today what they should have done yesterday." Larry Summers

"History has it that young man once found himself in the immediate presence of the late Mr. J. P. Morgan. Seeking to improve the golden moment, he ventured to inquire Mr. Morgan's opinion as to the future course of the stock market. The alleged reply has become classic: 'Young man, I believe the market is going to fluctuate.'" – Lawrence H. Sloan, from his 1927 book "Security Speculation – The Dazzling Adventure" (1, 2)

It's easy and comfortable to think of long-term investing when the market is in a stretch like we've had the last two years. 2024 has offered year-to-date-through-November returns of nearly 26.5% in the S&P 500 after a 24% increase in 2023. While we (as usual) are bullish for the market heading into 2025, we also know we are well overdue for a correction (10% – 20% drop from a previous high). When conditions are not as favorable, are you in a position to take advantage of "discounts" by maxing out your retirement savings wherever you can? This month's article was written and provided by Broadridge Advisor Solutions. You can find more like this on a variety of topics on our website: www.kingdomfs.net.
– David J Brunswick III

Dreaming of Retirement? Consider Maxing Out Your 401(k) in 2025

About 70% of U.S. private-sector workers have the option to contribute to a retirement plan such as a 401(k), 403(b), or 457(b) plan provided by an employer. Unfortunately, many of them

don't take full advantage of this tax-friendly opportunity to save for the future. (3)

The SECURE Act and SECURE 2.0 Act (federal legislation passed in 2019 and 2022, respectively) sought to improve Americans' retirement security by expanding access to workplace retirement accounts and encouraging workers to save more. As a result, some older workers will be allowed to make bigger contributions to their retirement accounts in 2025.

That's good news if you are one of the many Americans who have experienced bouts of unemployment, took time out of the workforce for caregiving, helped pay for pricey college educations for your children (or yourself), or faced other financial challenges that prevented you from saving consistently. You may have some catching up to do. And regardless of your age, the responsibility for saving enough and investing wisely for retirement is largely in your hands.

Starting Out Strong

The funds invested in tax-deferred retirement accounts accumulate on a tax-deferred basis, which means you don't have to pay any required taxes until you withdraw the money. Instead, all returns are reinvested so they can continue compounding through the years. This is the main reason why young workers can really benefit from saving as much as they can, as soon as they can.

Many companies will match part of employee 401(k) contributions, so it's a good idea to save at least enough to receive full company matches and any available profit sharing (e.g. 5% to 6% of salary). But to set yourself up for a comfortable retirement, you might elect to automatically increase your contribution rate by 1% each year (if that option is available) until you reach your desired rate, such as 10% to 15%.

Saving to the Max

If you have extra income that you would like to save, keep in mind that the employee contribution limit for 401(k), 403(b), and government 457(b) plans is $23,500 in 2025, with an additional $7,500 catch-up contribution for those age 50 and older, for a total of $31,000.

New for 2025, workers age 60 to 63 can make a larger "super catch-up" contribution of $11,250 for a total of $34,750. Like all catch-up contributions, the age limit is based on age at the end of the year, so you are eligible to make the full $11,250 contribution if you will turn 60 to 63 any time during 2025 (but not if you will turn 64).

You might also want to find out if your employer's plan allows special after-tax contributions. If so, consider yourself lucky, because this feature is not very common, especially at smaller companies.

In 2025, the combined total for salary deferrals (not including catch-up contributions), employer contributions, and employee after-tax contributions is $70,000 or 100% of compensation, whichever is less.

You generally must max out salary deferrals before you can make additional after-tax contributions. For example, if you are age 60, and you contribute the maximum $34,750 to your 401(k), and your employer contributes $15,000, you may be able to make a sizable after-tax contribution of $31,500 for a grand total of $81,250.

SIMPLE retirement plans (offered by smaller companies) operate under different rules and have lower limits: $16,500 in 2025 plus an additional $3,500 catch-up for employees age 50 and older or an additional $5,250 for employees age 60 to 63. (Certain SIMPLE plans may have higher limits.)

All of these contribution and catch-up limits are indexed annually to inflation.

Choosing Between Traditional or Roth

Traditional (or pre-tax) contributions are deducted from your paycheck before taxes, resulting in a lower current tax bill, and withdrawals are taxed as ordinary income. Roth contributions are considered "after-tax," so they won't reduce the amount of current income subject to taxes, but qualified distributions down the road will be *tax-free* (under current law).

A Roth distribution is considered qualified if the account is held for five years and the account owner reaches age 59½, dies, or becomes disabled. (Other exceptions may apply.)

Withdrawals from pre-tax retirement accounts prior to age 59½ and nonqualified withdrawals from Roth accounts are subject to a 10% penalty on top of ordinary income taxes. However, because Roth contributions are made with after-tax dollars, they can be withdrawn at any time without tax consequences.

When deciding between traditional and Roth contributions, think about whether you are likely to benefit more from a tax break today than you would from a tax break in retirement. Specifically, if you expect to be in a higher tax bracket in retirement, Roth contributions may be more beneficial in the long run.

But you should also consider that generally you will have to take taxable required minimum distributions (RMDs) from traditional accounts once you reach age 73 (or 75, depending on year of birth), whether you need the money or not. Roth accounts are not subject to RMDs during your lifetime, which can make them useful for estate planning purposes. This also provides flexibility to make withdrawals only when necessary and could help you avoid unwanted taxes or Medicare surcharges.

Splitting your contributions between traditional and Roth accounts could help create a wider range of future options.

Lastly, there's another new rule that could impact your contribution decisions over the coming years. Starting in 2026, all of your catch-up contributions will have to be Roth contributions if you earned more than $145,000 during the previous year.

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GENERATIONAL PLANNING STRATEGIES

KEEP MORE OF YOUR MONEY BY GIVING SOME AWAY! (VIA QCD)

BY DAVE BRUNSWICK, JR.

Last month we discussed if a "QCD was right for me."

As a reminder, a qualified charitable distribution (QCD) allows individuals who are 70½ years old or older to donate up to $105,000 total to one or more charities directly from a taxable IRA instead of taking their required minimum distributions. This can save on taxes, as well as provide other benefits (see last month's MarketWise).

This month, we will share an example of how Mr. and Mrs. Jones actually kept More Money by giving through use of QCD's.

Both Mr. and Mrs. Jones are age 74 and getting Social Security income of $4000/month each. Mr. Jones also receives a pension of $800/month.

Total taxable income before deductions = $91,200. Only 85% of their Social Security is taxable.

Total Federal standard deduction for the Jones' is $30,750. This brings their total Federal taxable income to $60,450. That is a 12% tax bracket which means their Federal tax bill would be $7254 for tax year 2024.

They live in North Carolina, where the State tax standard deduction is $27,050. Their total NC state tax would be $2887.

So total tax on their $105,600 income is $10,141.

BUT…….

GENERATIONAL PLANNING STRATEGIES CONTINUED

Since they are both age 74 and each has an IRA worth $500,000 they need to take their Required Minimum Distributions, which equal $19,608 each.

New total income is $144,816, total Federal taxable income is $99,666 and taxable State income is $103,666. Total income tax bite is now $26,577. The RMD pushed them up to the next Federal tax bracket. Total additional tax as a result of the RMDs is $16,436.

Let's reduce their income by $10,000 by using QCD strategy to each give their favorite charity $5000 and see what happens.

No QCD:

Total income: $144, 816

Total taxes: $26,577

Remaining in pocket: $118,239

QCD Strategy:

Total income: $134,816 (QCD of $5000 each)

Total Taxes: $14,961 (Fed back to 12% bracket)

Remaining in pocket: $119,855

NET INCREASE IN INCOME: $1616

This strategy will not work for everyone. If you would like to explore the possibility of using a QCD, please contact us. We are happy to help!

Disclosures

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References

The Fed Finally Cut Rates?

1) https://equito.co/the-best-investing-quotes/

2) Bloomberg, August 18th, 2017 (https://www.bloomberg.com/view/articles/2017-08-18/the-real-reason-markets-swooned-yesterday)

3) U.S. Bureau of Labor Statistics, 2024

WHO WE ARE

Kingdom Financial Services is a full-service, family owned and operated, Christian rooted financial firm located in Wake Forest, North Carolina. We are associated with G.A. Repple & Company, which is a prominent Christian owned Broker/Dealer in the Southeast. We are trained Planned Giving Consultants with expertise in the areas of investment and financial insurance products and services.



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