

## January 16, 2024 – Wealth Planning Commentary

### Retirement Planning Trends for 2024

In 2024 retirees and those planning for retirement are faced with a shifting, and somewhat challenging landscape. Income taxes, high inflation, and fading pension benefits are headwinds for many Americans. That said, there are still opportunities for retirement and income tax planning. Provisions of the Secure 2.0 Act and Inflation Reduction Act continue to phase in over the next few years. Many of these changes are not 'home runs', but rather provide marginal benefits for taxpayers.

Inflation continues to be one of the main themes of 2024. Although inflation is increasing at a lower rate compared to a year ago, prices are considerably higher than three years ago. Consumers are still experiencing higher prices at the grocery store and gas station. Retirees whose financial security depends on a spending plan may feel stressed.

Another headwind to financial security in retirement is sequence risk. If someone retires when markets have underperformed, either dramatically like 2008 or over a series of years, they're off to a challenging start in retirement. Withdrawing at market lows negatively impacts the long-term portfolio value, especially since the funds may need to last 30 years or more.

The concept of sequence risk can be applied to inflation. The average long-term inflation rate in the US is around 2.5%. If someone retires this year, they're at the tail end of a much higher than average inflation experience: 7% in 2021, 6.5% in 2022, and 3.4% in 2023. This means prices start considerably higher in retirement than one likely expected three years ago. It's like beginning retirement in a year with a large negative market return. If someone begins retirement with high inflation and a negative return (in a year like 2022), that can jeopardize the success of the plan.

Fortunately, there are various tax and regulatory changes this year that will help mitigate the impacts of inflation. These changes come in the form of typical IRS inflation adjustments but also bipartisan legislation that passed in 2022: the Secure 2.0 Act and the Inflation Reduction Act.

Tax brackets are indexed with inflation for 2024. If this year's income is the same as last years, you will experience a lower effective tax rate. If your income increases this year, you will likely have a similar effective tax rate. This year, there are higher contribution limits for retirement plans, including catch-up contributions, allowing taxpayers to defer taxes on a greater portion of their income. The age for required minimum distributions has been raised to 73, allowing retirees to defer withdrawing from pre-tax accounts and save on income taxes if they do not need the funds. Additionally, there are more opportunities for those looking to save to pre-tax accounts. For example, sole proprietors and sole-member LLCs may create solo 401(k)s this year; the deadline is April 15th.

On the healthcare front, a change from the Inflation Reduction Act applies to Medicare Part D participants. Many participants can benefit from a cap on out-of-pocket expenses for brand name drug costs, approximately \$3,300 for this year. This will help curb spending on prescription drugs. Also, many are unaware that long-term care premiums are deductible. The deduction depends on age and ranges from \$470-\$5,880.

Please reach out to your Wealth Manager with questions about retirement and tax planning.

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