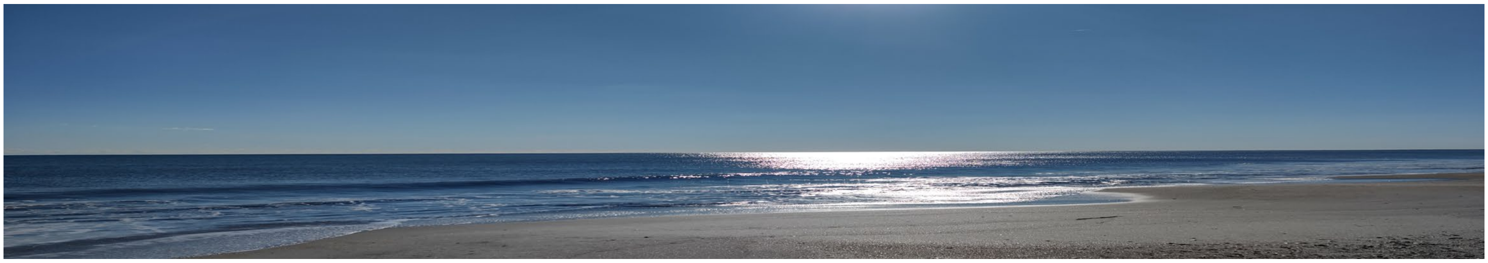
AMI Newsletter, Winter 2025



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.[1]

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 (final legislation is pending).

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). Final legislation is pending on Super Catchups so look for more information on this option and how to elect it once it has been published by the IRS.

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 non-Roth after-tax contributions (for plans that permit these types of 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. Your plan will specify the types of distributions available to you (for example: death, retirement, disability, termination of employment, in-service, hardship, etc.).

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 (indexed) during the previous year.

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

Can I still have a traditional IRA if I contribute to my 401(k) plan at work?

Yes. Anyone with earned income can open and contribute to a traditional IRA. The contribution limit is $7,000 for 2025 (unchanged from 2024), plus an additional "catch-up" contribution of $1,000 if you're 50 or older in 2025 (unchanged from 2024). However, you may not be able to deduct your IRA contributions if you're covered by a 401(k) plan at work. Whether or not you can deduct your IRA contributions depends on your filing status and annual income (adjusted gross income, or AGI). Specifically, for tax year 2025:

If your filing status is:	Your IRA deduction is reduced if your AGI is between:	Your deduction is eliminated if your AGI is:
Single or head of household	$79,000 and $89,000	$89,000 or more
Married filing jointly or qualifying widow(er)	$126,000 and $146,000	$146,000 or more
Married filing separately	$0-$10,000	$10,000 or more

Special rules apply if your spouse is covered by a plan at work, but you are not. You may also qualify for a partial tax credit for amounts contributed to your traditional IRA or your 401(k) plan.

Don't get tricked. In some states, making one small payment on an expired debt can reset the statute of limitations and bring it back to life

Zombie Debt: Is It Coming for You?

Zombie debt is old and often expired debt that could be revived after being purchased by a collection agency for pennies on the dollar — or less. These "debt scavengers" have plenty of incentive to cast a wide net and take aggressive steps to collect even a small portion of the original debt.

If you are contacted by a debt collector, it could be for a debt you already repaid or don't owe. For debts written off by creditors long ago, some records might be lost or unreliable. If you don't remember crossing paths with the creditor, it's possible that the debt in question belongs to someone else with a similar name or is the result of identity theft.

One example is a recent wave of zombie second mortgages threatening families with the loss of their homes. After the 2008 housing crash, many homeowners had their mortgages modified and presumed (or were told) that their second loans were forgiven. Now that home prices have risen around the nation, more investors who bought defaulted second mortgages are moving to collect those debts, even if it means foreclosing on the homes.[1]

Unfortunately, this is just one of the ways that zombie debt could come back to haunt you, and depending on the circumstances, you may or may not be responsible for paying it back.

More types of zombie debt

Time-barred debt. You may be contacted about a debt that is beyond the statute of limitations — the length of time during which you can legally be sued by a creditor or debt collector over an unpaid debt. These limits differ based on the type of debt and can vary widely by state, though they generally range from three to 10 years. When a debt is "time-barred," a debt collector may still try to convince you to repay it voluntarily.

Discharged debt. This refers to debt that has been legitimately wiped out through a bankruptcy case.

Settled debt. A lower payoff on non-secured debt (such as medical or credit-card debt) might have been negotiated with the creditor in exchange for forgiveness of the remaining balance.

Beware of scare tactics

Debt collectors are not allowed to use abusive language, constant harassment, or deception to intimidate you into repaying a debt that is beyond the statute of limitations or is not actually yours — but it's been known to happen. They might threaten to sue, even if it's illegal to do so, then offer to leave you alone if you make a partial payment.

Don't get tricked. In some states, making one small payment on an expired debt can reset the statute of limitations and bring it back to life. The collector could then legally pursue the entire amount. Repaying part of a debt that was never yours could be interpreted as admitting it does belong to you.

Tips for fighting off debt scavengers

How should you respond if you are contacted about a zombie debt? Don't panic, and don't immediately make a payment or provide any personal information. On the other hand, it might not be wise to assume it's a scam and ignore calls or letters from a collection agency.

Start by asking for a debt validation letter, which should include information about the original creditor, the amount of the debt, and when it was incurred. Don't say anything to a debt collector until you have a chance to research the details, verify the debt is really yours, and determine whether it falls within the statute of limitations.

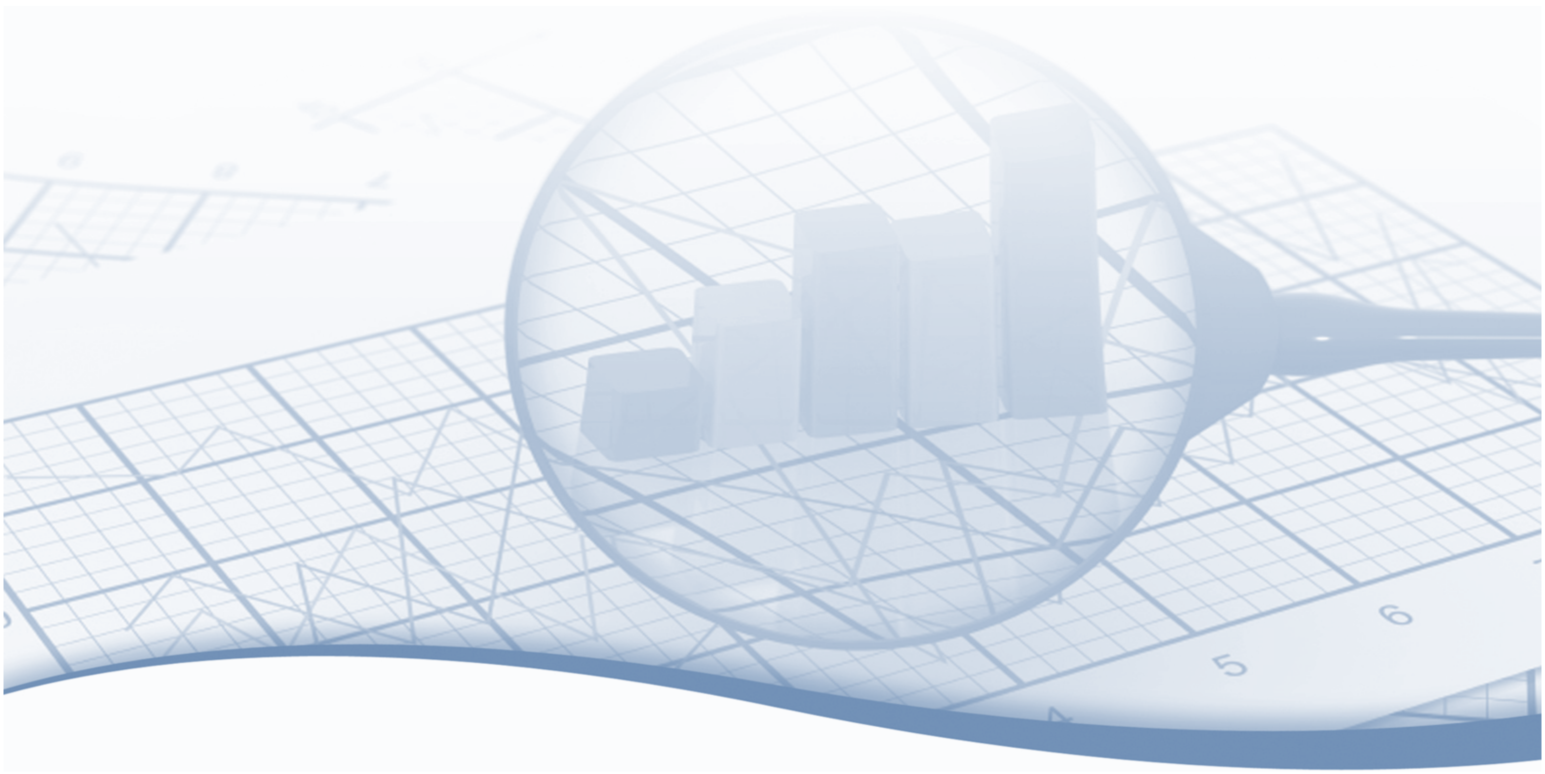
If you confirm that the debt is a mistake, has already been paid, or is expired, send a letter disputing the debt within 30 days (and keep a copy for your records). If it shows up as a delinquency on your credit report, you can also file a dispute with the credit agency. You are entitled to a free copy of your credit report weekly from each of the three nationwide credit agencies: Experian, TransUnion, and Equifax. Visit www.annualcreditreport.com for more information. (Previously, they were only available for free on an annual basis.)

Sometimes a zombie debt results from a long-forgotten charge and/or a bill left behind unknowingly when moving from one place to another. If you discover that you do owe the debt and have the money, resolving the unpaid account could help protect your credit. If you can't pay the entire amount right away, you may be able to negotiate a payment agreement.

Receiving a collection notice for a home mortgage could be a more serious and costly threat. If you are contacted by an unfamiliar lender demanding money for a second mortgage, check the title report for any encumbrances or liens attached to your property. If you find one, consider consulting an attorney to help negotiate with the lienholder or challenge the debt in court, depending on your personal situation.

1) NPR.com, May 18, 2024

AMI Benefit Plan Administrators, Inc.
100 Terra Bella Drive
Youngstown, Ohio 44505
800-451-2865
ami@amibenefit.com
www.amibenefit.com



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