Conway & Co. Financial Services

Helping People Plan Their Financial Futures"

March 7, 2025

Pre 59.5 Withdrawals

Generally speaking, if you withdraw from your retirement plans before 59½, you will pay income taxes and a 10% penalty. However, you may fall into one of the exceptions:

1) Death or permanent disability of the owner;

2) Federally declared disaster relief such as the hurricanes and wildfires. It is comforting to know that up to $22,000 can be taken out of an IRA/401(k) for each disaster;

3) Up to $5,000 for the birth or adoption of a child;

4) Up to $10,000 for a domestic abuse victim;

5) Medical expenses exceeding 7.5% of adjusted gross income (not otherwise reimbursed);

6) Family emergency of up to $1,000;

7) First-time home purchase up to $10,000 (only from IRAs);

8) Qualified higher education expenses (only from IRAs);

9) If you retire before age 59½, you can take a series of equal withdrawals each year for at least five years or until you reach 59½, whichever occurs later. In addition, you can withdraw money from an IRA to pay for health insurance if unemployed.

10) Withdrawals are permitted from your most recent employer's 401(k) without penalty if you retire after age 55 and in cases of divorce with a Qualified Domestic Relations Order from the court.*

More Money for Catch-Up Contributions

Once a retirement saver reaches the age of 50, they can put more money into a retirement plan, a/k/a as a "catch-up" contribution. For a 401(k), that amount is $7,500 and $1,000 for an IRA. But beginning this year, Secure Act 2.0 increases the catch-up amount even more for retirement participants ages 60–63. (Don't ask us why it was just those ages; it is just the way the law was written). For 401(k), 403(b), and 457(b) plans, a participant can put in up to $10,000 or 150% of the maximum catch up contribution ($7,500), whichever is greater. For this year, that works out to be $11,250. The same rule applies to SIMPLE plans, but it is $5,000 or 150%, whichever is greater, which makes the maximum amount $5,250 for 2025. Since all these numbers are adjusted for inflation, the amount will likely change each year. If you are fortunate enough to be 60, 61, 62, or 63 with the ability to put more away, make a change to your contribution amount as soon as possible.*

Income and Estate Taxes and You

In 2017, tax reform reduced the taxes for most American families, but all of these are set to expire at the end of this year. President Trump campaigned on the promise of extending these tax cuts, and with a slim Republican majority in both the House and Senate, many believe it is a done deal. Hold your horses and do not get ahead of the horse trading that is likely to take place.

Let's first look at the actual tax brackets. The top rate in 2017 was 39.6% and now it is 37%. Also, the brackets were widened. We expect both to stay in place. The State and Local Tax (SALT) was limited to $10,000 and many believe it was meant to hit the heavily taxed democratic states like Connecticut, New York, and California. Earlier, we thought this might simply be adjusted for inflation going forward, but it appears that Trump has bought into raising the cap but likely not eliminating it.

The standard deduction was doubled and adjusted for inflation. It is now $15,000 for single taxpayers and $30,000 for a married couple filing jointly. This was a big savings for the middle class, so we doubt it will disappear. The child tax credit increased from $1,000 to $2,000, aiding families with children up to a certain income. During the campaign, Vice President J.D. Vance advocated increasing the credit.

We cannot end without discussing estate taxes, even though it only affects about 1% of all estates. This year's exemption is $13.99 million per person and will be roughly cut in half if the 2017 amounts are not extended. Further, the top bracket will return to 50% from 40% now. In the grand scheme of things, the federal estate tax raises very little money annually, but every little bit counts. We see the exemption amount staying the same, but the tax itself might be raised back to 50%.*

What Are They Afraid of? Everyone Knows the Answer

Most politicians know how to "cure" Social Security's ills but are reluctant to upset their constituents and risk not being re-elected. But it may be that those fears are unfounded. The National Academy of Social Insurance, AARP, the National Institute of Retirement Security and the US Chamber of Commerce just published a new survey called Social Security at 90: A Bipartisan Roadmap for the Program's Future (https://www.nasi.org/research/economic-security/social-security-at-90-a-bipartisan-roadmap-for-the-programs-future/). What hurts more: pay more taxes or reduce benefits?

Overwhelmingly, 85% of the participants said they would pay more taxes to avoid lower benefits. And surprisingly, this came from a broad cross-section of the political divide, with 3 of 4 Republicans and 9 of 10 Democrats agreeing. They proposed doing: 1) raise the payroll tax rate from 6.2% to 7.2% over an extended period of time; 2) raise the payroll tax cap; 3) provide a benefit to people who drop out of the workforce to be caretakers for young children and older adults; 4) use a better inflation factor to increase both the cap and benefits; and 5) reduce benefits for those that are retired and their income, not counting Social Security, exceeds $60,000 for a single person and $120,000 for a couple. Most seem like logical solutions, but we must admit that the last idea isn't going to be very appealing to many.*

They Have to be Kidding

How much do you need to save for retirement? It is the $64,000 question. (For those of you under age 50, there used to be a TV quiz show where $64,000 was the top prize.) Of course, the answer is simple – it depends. It depends on the lifestyle you want in retirement and then it depends on how well you save and invest.

Just to show you how wide a spread there is in many people's minds, some think 10 times their income will be enough, and others think they will need up to 30 times, according to a recent report from Principal. Many thought they could draw 10% per year and not outlive their savings. Really? We don't know what world they live in, but it's not one that is real life. As financial planners, we generally assume the rule of thumb for a "safe" withdrawal is from 3% to 5 % of a client's portfolio.

Let's assume that you make $100,000 a year and you want to have an income equal to your salary. Well, is it your salary you want to replace or the amount you bring home after taxes (the amount you are living on)? Let's look at both scenarios. If you want to replace the entire $100,000, we first need to subtract the amount you are going to receive from Social Security and any pension payments. If that amount comes to $40,000, you must replace $60,000 from your investments and savings. Assuming we draw down 4% per year, that would require $1.5 million, or 15 times your current salary.

But what if we are trying to replace spendable income after taxes? The calculation is quite different. You need to subtract the approximately $7,500 taken from your paycheck to pay Social Security and Medicare taxes, resulting in after-tax earnings of $92,500. Next, you must subtract the amount you put in your 401(k) and other savings. Let's assume that it is $12,500 per year. Now we end up needing to replace $80,000 of income. Subtract the Social Security and pension amount of $40,000, and we are down to a need to replace the remaining amount of $40,000, which at 4% would mean a need to save $1 million. As you can see – it depends. Still shaking our heads in amazement at those that honestly think a 10% drawdown is feasible for life.*

Job Hopping is Slowing Down

Whether you have been an employee or employer in the last four years, you've likely seen a fair amount of turnover, especially among the younger generations. However, things may be slowly shifting back to the days when employees spent more than just a couple of years at any given company. In 2024, 39.6 million workers quit, down 11% from 2023 and 22% from the peak in 2022, bringing us closer to pre-pandemic numbers.

There are several reasons for this gradual shift in hirings.

- Decline in job openings: The ratio of job openings to unemployed workers has dropped from 2:1 in 2022 to 1:1.
- Slowing hiring: New hires decreased from around 71 million in 2023 to 66 million in 2024.
- Cautious business outlook: Employers are focusing on controlling salary costs and consolidating their teams rather than aggressive recruitment.

Increased automation: Some companies are investing in automation instead of hiring new workers, especially those that can utilize AI..

The labor market remains stable, with the unemployment rate hovering around 4%. While this shift may present challenges for those seeking new opportunities, it also offers employers a chance to retain talent and invest in long-term growth. To stay competitive, employers must place more focus on employee retention, skills development, and strategic automation.

Employees will similarly need to focus on continuous learning and adaptability to meet the demands of the modern workforce. *

[Fewer Americans Are Quitting Their Jobs - WSJ]

The Great Wealth Transfer Has Begun

Much has been written about the wealth that the Baby Boomer generation will pass on to their children and grandchildren. The great wealth transfer is estimated to approach about $124 trillion. Recently, there was a very interesting article in New York Magazine entitled “How Many New Yorkers Are Secretly Subsidized By Their Parents?” (How Do People Afford Living in NYC? Boomer Generation Wealth).

Essentially, the article insinuates that many Baby Boomer children could not afford to live in New York City without substantial assistance from mom and dad. Even with this assistance, which the article calls “parent money”, many are living a modest middle-class standard, at least by New York City standards.

It isn’t unusual for parents to continue helping children with money issues like setting up college education funds, helping to pay down student debt, subsidizing the cost of private school, and buying a new home, among other things. As financial planners and parents ourselves, we understand the desire to assist where possible. That said, it should not come at the risk of the parents’ own lives in retirement. *

Is Bitcoin the Digital Equivalent of Pet Rock?

In 1975, advertising executive Gary Dahl introduced the world to Pet Rock, a smooth stone marketed as the perfect low-maintenance companion. Decades later, Bitcoin emerged as the world’s first decentralized digital currency. While these two phenomena seem worlds apart at first glance, they share some similarities. Here’s why Bitcoin is, in many ways, the digital equivalent of a Pet Rock.

1. Intrinsic Value is Subjective

One of the most striking similarities between Bitcoin and the Pet Rock is that neither has intrinsic value. A rock is just a rock—until a marketing genius turns it into a sensation. Similarly, Bitcoin is a string of code on a blockchain with no physical form or traditional backing. Yet, both have derived immense value from perception, belief, and hype rather than tangible utility.

2. A Speculative Craze

Both Bitcoin and Pet Rocks exploded in popularity due to speculation and social phenomena. In the 1970s, owning a Pet Rock became a cultural fad, much like Bitcoin's meteoric rise in the 2010s. People bought into the trend, either as a joke, a novelty, or in hopes that it would continue gaining popularity. While Bitcoin's price swings have created fortunes and/or financial havoc, speculation continues to fuel its popularity just like the Pet Rock during its heyday.

3. No Real Use Case for the Average Person

The Pet Rock didn't serve a real purpose beyond entertainment, and for many, Bitcoin isn't very different. While Bitcoin enthusiasts tout it as a revolutionary financial instrument, its actual usage as a medium of exchange remains limited in the current financial world, although some will take it, including charities. Most people buy Bitcoin not to transact but to hold, much like someone who bought a Pet Rock simply for the novelty of ownership.

4. Hype-Driven Demand

Marketing played a crucial role in the Pet Rock fad, just as media hype and influencer endorsements have driven Bitcoin adoption. The same psychological forces that convinced people to pay for a rock in a box are at play in the Bitcoin market, where social media buzz and institutional endorsements push demand upward. The number of commercials and ads touting both were/are numerous.

5. It's All About Ownership

Owning a Pet Rock was more about the statement than the product itself. Bitcoin ownership has a similar social and psychological aspect, where people enjoy the feeling of being part of an exclusive, forward-thinking group. Whether it's the Pet Rock of the '70s or Bitcoin today, part of the appeal is simply being able to say, "I own it."

Key Difference: A Rock Won't Make You a Millionaire

Despite the parallels, there is one major difference: Bitcoin has, for many, been a lucrative but very speculative investment. While Pet Rocks were a short-lived craze, Bitcoin has evolved into a financial asset with institutional adoption, albeit with significant risks. Its value is simply what someone is willing to pay for it.

Conclusion

Bitcoin, much like the Pet Rock, thrives on perception, speculation, and psychological appeal. While the Pet Rock faded into history, Bitcoin has continued to evolve, making it more than just a passing fad, at least so far. Whether it will ultimately become a mainstream currency or a historical curiosity remains to be seen. Either way, its similarities to the Pet Rock remind us that sometimes, value is simply what people believe it to be. Real wealth does not endure a passing fad, and despite the hype, we would rather go to Las Vegas with our speculative money.*

WEEK ENDING 2/28/2025
(CUMULATIVE TOTAL RETURNS)

PRINT VERSION | ONLINE VERSION

Equities[1]	Week	YTD	1-Year	Close
S&P 500	▼ -0.95%	▲ 1.4%	▲ 18.4%	5,955
DJIA	▲ 1.01%	▲ 3.3%	▲ 14.4%	43,841
NASDAQ	▼ -3.45%	▼ -2.3%	▲ 17.9%	18,847
Russell 1000 Growth	▼ -2.56%	▼ -1.7%	▲ 19.7%	3,971
Russell 1000 Value	▲ 0.89%	▲ 5.1%	▲ 15.8%	1,910
Russell 2000	▼ -1.44%	▼ -2.9%	▲ 6.7%	2,163
Foreign Stocks	▼ -0.81%	▲ 7.3%	▲ 9.3%	
Emerging Markets	▼ -4.30%	▲ 2.3%	▲ 10.6%	

Top Three S&P 500 Equity Sectors[1]	YTD
Health Care	▲ 8.4%
Financials	▲ 8.1%
Consumer Staples	▲ 7.9%

Bottom Three S&P 500 Equity Sectors[1]	YTD
Consumer Discretionary	▼ -5.4%
Information Technology	▼ -4.2%
Communication Services	▲ 2.3%

Bonds[1]	Week	YTD	1-Year	Yield
10-Yr. Treasury	▲ 1.87%	▲ 3.7%	▲ 4.5%	4.2%
US Bonds	▲ 1.26%	▲ 2.7%	▲ 5.8%	4.58%
Global Bonds	▲ 0.41%	▲ 2.0%	▲ 3.0%	3.54%
Munis[2]	▲ 0.61%	▲ 1.5%	▲ 3.0%	3.55%

Market Indicators[3]		As of
Fed Funds Target	4.50%	2/28/2025
Inflation (Core CPI)	3.30%	1/31/2025
Unemployment	4.00%	1/31/2025
GDP	2.30%	12/31/2024

Past performance is no guarantee of future results. Indexes are unmanaged and one cannot invest directly in an index. They do not reflect any fees, expenses or sales charges.

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As always, we encourage you to give us a call if you would like to discuss anything further. We will visit again soon. Proudly and successfully serving our clients for 58 years.

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