Doerschler & Associates

Wealth Management Financial News

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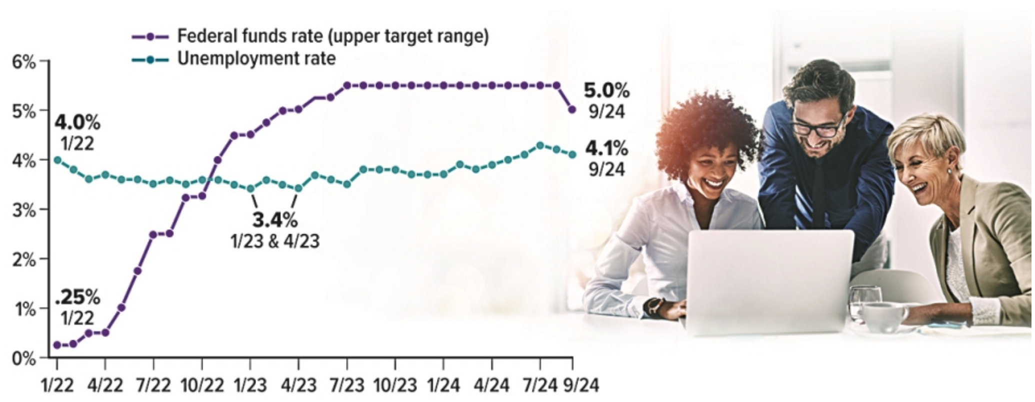
62.7%

Labor force participation rate in September 2024, well above the pandemic low of 60.1% but still below the pre-pandemic level of 63.3%. The participation rate is the percentage of civilians age 16 or older who are either working or looking for work. Perhaps more important than the general rate, the rate for the prime working ages of 25 to 54 was 83.8%, above the pre-pandemic level of 83.0%.

Source: U.S. Bureau of Labor Statistics, 2024

Employment Stayed Strong Despite High Rates

When the Federal Reserve raises interest rates to fight inflation, the unemployment rate typically rises as the economy slows in response to the higher cost of borrowing. Remarkably, unemployment remained under 4% for 27 months during and after the Fed's unprecedented rate increases that began in early 2022 — the longest period at this level since the late 1960s. It has risen slightly but remained just above 4% through September 2024. With inflation apparently under control, the Fed has begun to decrease rates, which could help keep employment strong.



Sources: Federal Reserve, 2024; U.S. Bureau of Labor Statistics, 2024

November 2024

Year-End 2024 Tax Tips

Here are some things to consider as you weigh potential tax moves before the end of the year.

Set aside time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

Defer income to next year

Consider opportunities to defer income to 2025, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services in order to postpone payment of tax on the income until next year.

Accelerate deductions

Look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as qualifying interest, state taxes, and medical expenses before the end of the year (instead of paying them in early 2025) could make a difference on your 2024 return.

Make deductible charitable contributions

If you itemize deductions on your federal income tax return, you can generally deduct charitable contributions, but the deduction is limited to 50% (currently increased to 60% for cash contributions to public charities), 30%, or 20% of your adjusted gross income, depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.)

Increase withholding

If it looks as though you're going to owe federal income tax for the year, consider increasing your withholding on Form W-4 for the remainder of the year to cover the shortfall. The biggest advantage in doing so is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck.

Save more for retirement

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) can help reduce your 2024 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so. For 2024, you can contribute up to $23,000 to a 401(k) plan ($30,500 if you're age 50 or older) and up to $7,000 to traditional and Roth IRAs combined ($8,000 if you're age 50 or older). The window to make 2024 contributions to an employer plan generally closes at the end of the year, while you have until April 15, 2025, to make 2024 IRA contributions. (Roth contributions are not deductible, but qualified Roth distributions are not taxable.)

Take any required distributions

If you are age 73 or older, you generally must take required minimum distributions (RMDs) from your traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 25% of any amount that you failed to distribute as required (10% if corrected in a timely manner). Beneficiaries are generally required to take annual distributions from inherited retirement accounts (and under certain circumstances, a distribution of the entire account 10 years after certain events, such as the death of the IRA owner or the beneficiary); there are special rules for spouses.

Weigh year-end investment moves

Though you shouldn't let tax considerations drive your investment decisions, it's worth considering the tax implications of any year-end investment moves. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses above the amount of your gains can be used to offset up to $3,000 of ordinary income ($1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

More to Consider

Here are some other things to consider as part of your year-end tax review.

Consider postponing income and/or accelerating deductions if

- You expect to be in a lower tax bracket next year (perhaps you'll retire next year)
- Your itemized deductions are greater than the standard deduction this year
- You want to delay payment of tax

Consider accelerating income and/or postponing deductions if

- You expect to be in a higher tax bracket next year (perhaps you have a lower income this year)
- The standard deduction is greater than your itemized deductions this year
- You're subject to alternative minimum tax this year and certain deductions are disallowed

Do You Know Your Medicare Coverage Options?

There are two ways to obtain Medicare coverage: (1) Original Medicare (Part A hospital insurance and Part B medical insurance), often combined with a Medigap supplementary policy and a Part D prescription drug plan; and (2) Medicare Advantage (Part C), which replaces Original Medicare and often includes prescription drug coverage as well as features similar to those provided by a Medigap policy.

New beneficiaries can choose among these options when they enroll, while current beneficiaries can make changes during the annual Open Enrollment Period from October 15 to December 7 (see chart). Some changes can also be made at other times of the year.

Original Medicare with Medigap and Part D

Original Medicare is administered directly by the federal government and includes standardized premiums, deductibles, copays, and coinsurance payments. While these out-of-pocket costs are relatively moderate for doctor visits, laboratory tests, short hospital stays, and other medical services, there is no out-of-pocket maximum, so a serious illness or extended hospital stay could be financially devastating.

For this reason, beneficiaries often purchase a Medigap policy offered by private insurers, which pays nearly all or a percentage of Medicare out-of-pocket costs, and for some services not covered by Medicare such as emergency medical care outside the United States. In most states, Medigap policies are labeled by letter (for example, Plan A). Benefits for each plan are standardized, but premiums vary by insurance company, location, gender, tobacco use, and marital status.

The best time to buy a Medigap policy is when you first enroll in Medicare Part B. You then have a six-month period during which you can buy any Medigap policy in your state for the same premium the insurance company charges to healthy enrollees, even if you have health problems. If you miss this opportunity, a company can charge you more for coverage or refuse coverage altogether, depending on your health.

Part D prescription drug plans are offered by private insurers under Medicare supervision. Monthly premiums, deductibles, and out-of-pocket costs vary by plan.

Medicare Advantage

Medicare Advantage (MA) is offered by private insurers but mostly funded by Medicare. These "all-in-one" plans are generally more cost-effective than the combined costs of Original Medicare, Medigap, and Part D. All MA plans have out-of-pocket maximums and may offer additional benefits such as dental care and eyeglasses. In return for lower costs, MA plans strongly encourage or require the use of network providers and may deny claims that would be paid by Original Medicare.

Annual Open Enrollment

Medicare beneficiaries can make the following changes during annual Open Enrollment from October 15 to December 7, with changes effective January 1.

Change from Original Medicare to a Medicare Advantage (MA) plan or from an MA plan back to Original Medicare
Switch from one MA plan to another MA plan
Join a Medicare Part D prescription drug plan, switch from one Part D plan to another, or drop Medicare prescription drug coverage completely

In addition, you can change from MA to Original Medicare or switch MA plans during the Medicare Advantage Open Enrollment Period from January 1 to March 31. You may also be able to make changes during other special enrollment periods.

Personalized comparisons

The best place to start exploring optional plans is at medicare.gov/plan-compare. After entering your zip code, you will have a choice to find a Medicare Advantage Plan, a Medicare Part D drug plan, or a Medigap policy. If you are already a Medicare beneficiary, you can save time by logging in to your online account, or create a new account. When exploring MA plans, be sure that your preferred providers are included in the plan's network. Recently, an increasing number of providers have left MA networks due to claim denials and stringent preauthorization requirements.[1]

Open Enrollment offers the opportunity to change MA plans or return to Original Medicare. Keep in mind, however, that when you change from an MA plan to Original Medicare, you may pay a higher premium for a Medigap policy, or be unable to obtain a policy, depending on your health.

When exploring Part D drug plans, be sure to accurately enter the name, dosage, and frequency of your prescription drugs. Slight differences, such as a tablet vs. a capsule or generic vs. brand, can make a big difference in the cost of the medication. Note that Medicare Part D out-of-pocket costs will be capped at $2,000 starting in 2025.[2]

1) KFF Health News, November 29, 2023

2) The Part D cap will be adjusted annually based on the change in Medicare Part D per capita spending (i.e., the amount that Medicare spends on each Part D beneficiary).

Eight Ideas for Smarter Holiday Shopping

Whether you're shopping online or hitting the mall this holiday season, here are some tips that might help you save time and money.

1. Make a list. Establish an overall budget, then make a list of gifts you will need to buy and how much you can afford to spend on each person.

2. Shop early. If you shop early in the season, items are more likely to be in stock, and you may face fewer shipping delays. Sales often start well before Black Friday, so keep an eye out for promotions. Signing up for online or social media deal alerts can help.

3. Search for deals. Knowing whether a deal is truly good can be tricky, but many websites and phone apps are available that can help you compare items and prices as you shop. Promotions might be limited to certain items and may expire quickly, so read the fine print. Retailers may also match competitor prices on identical items — it doesn't hurt to ask.

4. Set up accounts. To complete purchases quickly, consider saving your information and shipping addresses on trusted online accounts with your favorite retailers. Look for special offers and coupon codes that you can use at checkout.

5. Track spending. Try using one card for everything so you can quickly review your spending. A rewards card may give you cash back, points, or miles that you can redeem in the future but may carry higher interest rates, so avoid making purchases that you can't pay off by the due date.

6. Watch out for gift card scams. Take precautions to help protect yourself from card-draining scams (where a thief has copied a gift card's number and security code before it's been purchased and will drain the card's value when activated). Buy cards near the register, inspect them for obvious signs of tampering, and check the balance right away. Keep the receipt as proof of purchase, and contact the retailer if you suspect an issue.

7. Reconsider buy now, pay later. Offers for these services may pop up when you're making an online purchase. Splitting your purchase into smaller payments may be convenient but makes it easier to overspend and rack up debt quickly.

8. Focus on shipping costs. Soaring shipping costs have made free shipping offers especially valuable. If you're sending your own packages, compare carriers because costs vary. Unless you're using flat-rate shipping, both the size and the weight of the box may factor into how much you'll pay, so use the smallest packaging you can. Ship as early as possible to avoid having to pay premium rates for one- or two-day shipping. And keep tracking numbers and a copy of receipts for gifts you've shipped in case your package is lost or stolen.