ProWealth FINANCIAL NEWS DIGEST

MONEYLINE

New Retirement Savings Rules For 2025

Courtesy of Nick Silva & Paul Habib

In 2025, participants in 401(k) or other employer-provided retirement plans who are ages 60 through 63 are allowed to make catch-up contributions of up to $11,250, for a maximum contribution of $34,750. (Savers under 50 will be allowed to stash up to $23,500 in 401(k) and other employee-sponsored plans in 2025, up from $23,000 in 2024. The catch-up contribution for workers 50 and older will be $7,500, for a total of $31,000 in 2025.)

You can direct your contributions to a traditional or a Roth 401(k) plan. You can contribute to a Roth 401(k) regardless of your income level. And as of 2024, you're no longer required to take minimum distributions from your Roth 401(k) plan when you turn 73.

The maximum you can contribute to a traditional or Roth IRA will remain at $7,000 for 2025, the same as 2024. Workers 50 or older will be able to contribute up to $1,000 in catch-up contributions, unchanged from 2024.

Starting in 2025, businesses adopting new 401(k) or 403(b) plans are required to automatically enroll new employees at a contribution rate of between 3% and 10% of compensation. Businesses with 10 or fewer employees or start-ups that have been in business for less than three years are excluded from this requirement.

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PROTECTION • RETIREMENT • OPPORTUNITY

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Social media versus your finances. In a recent survey, three out of four respondents say they have made "unnecessary" purchases directly from a social media platform. One out of five respondents felt that their purchases were scams. Two thirds said that social media encouraged overspending… 46% believe that social media is "bad for debt"… 36% say social media makes them feel bad about their finances… 63% regret some of their purchases made on social media… 36% say deleting their social media would make them spend less. *But:* Shopping on social media sites is more convenient than other online shopping websites for about half the respondents. *Bottom line:* The next time you are tempted to shop on social media pause and reflect if the item is something you really want or need.

Source: Online survey of social media shopping habits of 200 respondents by wallethub.com.

"The only reason a great many American families don't own an elephant is that they have never been offered an elephant for a dollar down and easy weekly payments."

-Mad Magazine

A Sabbatical May Be Better Than Early Retirement

Jacob Schroeder, Kiplinger's Personal Finance

If your soul yearns for a sabbatical, you are not alone. According to OSHA, over 80% of American workers report experiencing workplace stress, and more than half feel it affects their home life. With burnout on the rise, how can people create a healthier work-life balance?

A smarter and more achievable alternative to retiring early might be a sabbatical — an extended break from work, often for rest or personal growth. A sabbatical can deliver enduring benefits that go beyond basic self-care, without the long-term commitment of leaving the workforce.

While not yet the norm, sabbaticals are becoming more popular, especially as workers prioritize mental health.

For many, a sabbatical offers the chance to recharge, pursue personal interests and improve overall well-being. And what's more, it can also be a great way to prepare for retirement, whenever you're truly ready.

Benefits of a sabbatical

Burned out as a nightclub promoter, Scott Harrison took a break and volunteered in Liberia, where he saw the need for clean drinking water. The experience inspired him to create charity: water, now providing clean water to millions worldwide.

Harvard Business Review identified three types of sabbaticals: "working holidays," where people pursue a passion project and return with greater independence; "free dives," intense explorations typically involving travel, helping people discover their authentic selves; and "quests," where individuals take time to recharge before pushing their limits, often by learning new skills.

Across all types, sabbatical-takers report greater confidence, clarity and renewed enthusiasm. Some, like Harrison, use the experience to pivot careers, while others bring fresh energy and skills back to their roles.

Employers increasingly recognize these benefits, with some offering paid sabbaticals to attract talent and support well-being.

One such employer, Morningstar, offers six-week sabbaticals, a perk that director of personal finance and retirement planning Christine Benz has taken twice, one of which was a "working holiday" to write a book on retirement.

She calls it "an opportunity to reflect" and "experiment with activities different from work to see how you like them and if they provide a different sense of purpose."

Planning your sabbatical

The planning required for a sabbatical varies depending on your employer's support.

Paid sabbaticals, which may include health coverage, simplify things. Several industries are more likely to offer paid sabbaticals, such as academia, law, finance and ministry. Research your employer's policies and ensure you understand what will be covered and if you will receive full or partial pay.

Unpaid or longer sabbaticals require more planning. Jamie Clark, CFP® advises those considering an unpaid sabbatical to carefully examine their finances.

"You should first understand your assets and liabilities, income, and both fixed and discretionary living expenses," Clark says.

Clark recommends setting aside three to six months of expenses as an emergency fund, plus additional funds for sabbatical costs and post-sabbatical job searches, and he cautions against dipping into retirement savings, which can derail long-term goals.

Beyond financial preparation, thoughtful planning is essential to a fulfilling sabbatical. Benz emphasizes the importance of structure, advising, "Be deliberate and realistic about what you'll be able to get done."

Options For Unused 529 Funds

By Mallika Mitra, Tribune Content Media

Q My child graduated from college, but we still have unused funds in her 529 plan. Can we just withdraw that money?

A When you withdraw money from a 529 for a qualified educational expense, that distribution isn't subject to taxes or penalties. But if you withdraw the money for a nonqualified expense, you face both federal income taxes and a 10% penalty on the earnings portion of the distribution. You may pay state income tax, too, depending on where you live.

There are exceptions to the 10%-penalty rule, such as if the account beneficiary dies or becomes disabled. If your child receives a tax-free scholarship or grant, or if he or she gets funds through a veterans or employer-provided educational assistance program, you can also qualify for an exemption from the 10% penalty. And the penalty will be waived if the child attends a military academy.

The penalty is also avoidable in certain cases related to the American Opportunity tax credit or Lifetime Learning tax credit. If you used some of your tuition and textbook expenses to qualify for the American Opportunity credit, for example, and therefore couldn't use those expenses for a qualified distribution from a 529 plan, you can take a nonqualified distribution and avoid the 10% tax penalty on the portion that is attributable to the tuition and textbook expenses used to justify the tax credit.

In all of these cases, you will still pay federal income tax (and possibly state income tax) on the earnings portion of the distribution. So, while you can pull unused money out of a 529 account for nonqualified expenses, it's not optimal, especially if you don't qualify for one of the exceptions to the 10% penalty.

There are other options for the unused 529 funds. You can use up to $10,000 of 529 funds per beneficiary for student loan payments. That means that a family could use $10,000 from a 529 to pay down one child's student loan debts and another $10,000 from the same account to pay down their sibling's loans. You can also let the unused funds sit in case your child (or someone else in your family) chooses to pursue a graduate degree, goes to trade school, accepts an apprenticeship or incurs other education-related expenses. Or, because of allowances for beneficiary changes, it may make sense to leave those funds in the account for your child's future child. Over time, the money should benefit from market growth. "Nothing stops you from continuing to contribute to the 529 plan after the student graduates," says Mark Kantrowitz, an expert on 529s and author of "How to Appeal for More College Financial Aid."

"Look at the bright side. Earth could be destroyed by an asteroid before you retire!"

Starting a freelance business? *Benefits of going freelance:* You can choose something that interests you, decide your own schedule, work from anywhere, set your own rates… And gain skills in areas such as time management, communication and self-promotion. *Top freelance businesses:* Tutor, virtual assistant, content, writer, graphic, designer, and accountant. *Getting started:* Outline measurable goals that are specific, attainable, relevant to your business and time-based. Establish strategic prices based on market competition. Promote your expertise to bring in clients, but choose initial clients carefully - professional customers who are willing to pay for good work will be most likely to build your reputation and refer your business. Create an online presence, essential in today's business market. Have a marketing plan and know how you will implement it. Always keep in mind that customer service is crucial. *Also:* Check out apps and other tools that can help you work more effectively. As your business catches on, decide to what extent you want to expand your offerings.

Source: careeraddict.com

"Money may kindle, but it cannot by itself, and for very long, burn."

-Igor Stravinski

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How To Minimize Taxes On Your Gains

By Kim Clark, Kiplinger's Personal Finance

Let's say you've been regularly buying shares in a company, but now you want to start taking some of those profits. "Choosing the right cost basis method helps you keep more money in your pocket," explains Nilay Gandhi, a certified financial planner with Vanguard Personal Advisor.

The cost basis is the price you paid for an investment. Because prices go up and down, you paid a different price each time you made a purchase. Each separate purchase of a security in a single transaction is called a tax lot. The size of your tax-reportable gain (or loss) will depend on which lots you sell.

If you sell lots purchased more than a year ago for a profit, you could pay up to 20% in federal long-term capital gains tax, depending on your tax bracket. Selling lots you purchased within the past year for a profit could incur short-term federal capital gains tax of up to 37%.

There are various ways to potentially reduce tax liabilities, such as:

Average. This method, which averages all your purchase prices of the same investment, is typically reserved for mutual funds. The IRS does not allow it for most stock sales.

First In, First Out (FIFO). This method automatically sells the oldest lots first.

Highest In, First Out (HIFO). This strategy sells the lots that you paid the most for. That can be advantageous for anyone trying to limit their capital gains and maximize their tax losses, says Gandhi.

Lowest Cost, First Out (LOFO). This method sells the investments with the biggest gains first. Like HIFO, LOFO does not take into account the date of the purchase, so it may expose users to liabilities for short-term capital gains tax.

Tax-optimized. This takes into account timing and returns to avoid short-term capital gains taxes and maximize tax losses.

As always, be sure to consult your tax professional.