



Life's Milestones: The Crucial Role Birthdays Play on Your Finances

John H. Harrington, CFP[®], Financial Planner

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Birthdays should always be about cake, candles, and celebration, but they're also important checkpoints on your financial journey.

With each passing year, they signal new rules, opportunities, and challenges. Welcome to the world where birthdays matter again, and the decisions you make today will shape your financial future.

This means understanding the nuances that each birthday brings. From catch-up contributions to Medicare enrollment, every milestone requires careful consideration and strategic planning.

Whether retirement is on the horizon or already underway, let's take a look at these important milestones.



Catch-Up Contributions

Catch-up contributions are a way for people who are 50 or older to save more money for retirement. This is meant to help boost retirement savings faster, especially if you weren't able to save as much in earlier years. Review the numbers below to see how you can increase your retirement contributions.

401(k), 403(b), 457 Plans - \$23,500, *under* age 50

401(k), 403(b), 457 Plans - \$30,500, *over* age 50

IRA - \$7,000, *under* age 50

IRA - \$8,000, *over* age 50

HSA Self Coverage - \$4,150 *under* age 50

HSA Self Coverage - \$5,150 *over* age 50

HSA Family Coverage - \$8,300 *under* age 50

HSA Family Coverage - \$9,300 *over* age 50



The Age of Penalty-Free Withdrawals

Starting the year you turn 59 ½, you may withdraw money from your Traditional IRA, Roth, SEP, SIMPLE IRA, and SARSEP plans without the 10% early withdrawal penalty. Distributions from a traditional IRA are taxed as ordinary income.

Distributions taken from a Roth IRA are considered tax-free as long as they are taken during retirement and the account has been open for five years. This is because nondeductible contributions were initially made, which makes this shelter for after-tax dollars a great tool for distributions in the later years of retirement. It can even be designated as an estate/inheritance legacy account.



Medicare and Social Security

Almost everyone ages 65 and older is eligible to enroll in Medicare Parts A and B. Leading up to the age of 65, you should start considering your Initial Enrollment Period (IEP), which lasts for a total of seven months. This period begins three months before you turn 65, includes the month you turn 65, and ends three months after you turn 65. Coverage begins the month after signing up during your IEP.

Claiming Social Security varies depending on your birth year. While you can claim reduced Social Security benefits as early as age 62, you can also wait until after full retirement age, up to age 70, to claim higher benefits. Each full year you postpone taking benefits increases the benefit amount by 8%. Deciding when to claim Social Security benefits requires planning to ensure you best impact yourself, your dependents, and your survivors.



Distributions Must Begin

Required minimum distributions (RMDs) must be taken by April 1 of the year following the calendar year in which you reach age 73 for IRAs, 401(k)s, and other employer-sponsored retirement plans. However, if you're still working past this age, RMDs may be delayed.

If you do not take any distributions, or if the distributions are not large enough, you may have to pay a 25% excise tax on the amount not distributed as required. The penalty can be reduced to 10% if withdrawals are taken within two years/corrected returns are filed. The amount of the RMD changes every year. RMDs will move to age 75 for retirees who attain age 74 after 1/31/2032. To accurately calculate the annual RMD amount, it is essential to work closely with us.

Conclusion

With careful planning and informed decisions, the journey towards financial well-being can be as fulfilling as the celebrations themselves. Let each birthday be a reminder of the progress made and the road that lies ahead.

Individual circumstances may vary, and there is no one-size-fits-all approach. Let's have a conversation so we can put a plan in place that works for you and your situation. If you have any questions, feel free to reach out. We always appreciate hearing from you and are here to assist whenever needed.