PROBITY ADVISORS, INC®

# 2024 ANNUAL PLANNING GUIDE

Plan.

Execute.

Achieve.

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As a client of **Probity Advisors, Inc.,** your success in all aspects of your financial life is important to us. We view wealth management as an ongoing process that requires coordination and communication between you, your loved ones, and our team of professionals. This guide is intended to walk you through planning and wealth management concepts you may wish to discuss with your advisor. This is in no way intended to be a substitute for in-person discussions with our office, but rather, we hope this will serve to foster a meaningful dialogue, which is critical to enabling well-informed decisions.

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# 1. FUNDAMENTALS OF FINANCIAL PLANNING:

## CONSIDERATIONS FOR EVERY LIFE STAGE

Throughout various life stages, financial needs, income, and spending can change. The chart below outlines some important considerations for different milestones.

### FIRST JOB

- ☐ Create a budget
- ☐ Pay down debt
- ☐ Establish savings goals
- ☐ Take advantage of employee benefit plans

### GETTING MARRIED

- ☐ Have an estate plan
- ☐ Get disability insurance
- ☐ Update beneficiaries
- ☐ Create or update your will
- ☐ Speak with an advisor about life insurance
- ☐ Invest wisely

### STARTING A FAMILY

- ☐ Review estate plan
- ☐ Save for college
- ☐ Prepare for unexpected events
- ☐ Spend wisely
- ☐ Review life and disability insurance
- ☐ Consider special needs planning

### ADVANCING YOUR CAREER

- ☐ Max out retirement contributions
- ☐ Be proactive in tax planning
- ☐ Discuss long term care plans with an advisor
- ☐ Review your investments
- ☐ Review financial goals

### NEARING OR DURING RETIREMENT

- ☐ Manage taxes and preserve wealth
- ☐ Have adequate medical insurance
- ☐ Make sure your estate plan is up to date
- ☐ Accelerate saving and investing for retirement
- ☐ Begin retirement income planning

### DIVORCE OR DEATH OF A SPOUSE

- ☐ Refine your financial plan
- ☐ Review your estate plan
- ☐ Review beneficiaries
- ☐ Review income needs and spending plan

### EXITING OR SELLING A BUSINESS

- ☐ Determine financial and professional goals
- ☐ Identify potential successors
- ☐ Communicate plans to stakeholders
- ☐ Share plans with family members

## FINANCIAL PLANNING

***Comprehensive and ongoing financial planning that keeps up with evolving priorities and goals can help you achieve better outcomes.***

# 2. MAKING SENSE OF RETIREMENT:

## COMPARING RETIREMENT ACCOUNT TYPES

***All 401(k)s and IRAs (Individual Retirement Accounts) offer valuable tax benefits to help Americans save for retirement. The differences between each type of account primarily depend on when taxes are paid on contributions and withdrawals, and whether the account is employer-sponsored or individually managed. Below is a brief overview of these differences.***

- A 401(k) account is an employer-sponsored retirement savings plan allowing employees to contribute a portion of their salary before taxes are taken out. Some employers offer to match a percentage of these contributions. Withdrawals during retirement are taxed as regular income.
- A Roth 401(k) functions similarly to a traditional 401(k), but contributions are made after taxes. This means withdrawals during retirement, including earnings, are tax-free.
- A traditional IRA allows individuals to contribute pre-tax income up to a certain limit each year. Withdrawals during retirement are taxed as regular income.
- A Roth IRA is an individual account where contributions are made with after-tax income. Unlike a traditional IRA, qualified withdrawals from a Roth IRA, including earnings, are tax-free during retirement.

## RETIREMENT ACCOUNT TYPES AT A GLANCE

| | Traditional 401(K) | Roth 401(k) | Traditional IRA | Roth IRA |
|---|---|---|---|---|
| | ESTABLISHED BY EMPLOYER | | ESTABLISHED BY INDIVIDUAL | |
| **Tax Treatment** | Contributions lower taxable income in the year they are made.<br>Distributions in retirement are taxed as ordi nary income. | Contributions are made after-tax.<br>Withdrawals are tax-free in retirement. | If deductible, contributions reduce taxable income in the year they are made.<br>Distributions in retirement are taxed as ordinary income. | Contributions are made after-tax.<br>Withdrawals are tax-free in retirement. |
| **Employer Match** | Matching contributions offered by many employers, typically around 3%. | Matching contributions can be either pre-tax or after-tax. | None | |
| **2024 Contribution Limits** | Eligible employees can contribute $23,000 in 2024 ($30,500 for those age 50 and older). Total employee and employer contributions cannot exceed $69,000 ($76,500 for those age 50 and older). | | The combined contribution limit for traditional and Roth IRAs is $7,000 in 2024 ($8,000 if age 50 or older). | |
| **Eligibility** | Eligibility is not limited by income. | | Deduction phased out at higher incomes if you or your spouse are covered by a workplace retirement account. | The ability to contribute is phased out at higher incomes. Contributions can be withdrawn at any time (after five years). |
| **Required Minimum Distributions (RMDs)** | RMDs begin at age 73. | Beginning in 2024, RMDs are no longer required. | RMDs begin at age 73. | No RMDs during account owner's lifetime. |

# SMALL BUSINESS RETIREMENT PLAN OPTIONS

***Small business owners can choose from several retirement plan options depending on their needs. Each plan has its own contribution limits and rules for when distributions can be taken and how they are taxed. Some have special rules that apply to businesses with employees. Below are a few popular retirement plan options for business owners or self-employed individuals to consider:***

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### SIMPLE IRA (Savings Incentive Match Plan for Employees):

This plan is designed for businesses with fewer than 100 employees. It allows both employers and employees to make contributions. Employers must either match employee contributions up to 3% of their compensation or make a fixed contribution of 2% for each eligible employee. Employees may contribute up to $16,000 (with an additional $3,500 for those age 50 and over). Contributions are tax-deferred until withdrawn in retirement.

### SEP IRA (Simplified Employee Pension Individual Retirement Account):

SEP IRAs are straightforward retirement plans for self-employed individuals and small business owners. Employers can contribute up to 25% of an employee's compensation or up to $69,000 (for 2024), whichever is less. SEP IRAs offer flexibility, allowing for contributions to be adjusted annually based on business performance. Contributions are tax-deductible, and earnings grow tax-deferred until withdrawal.

### Solo 401(k) (also known as an Individual 401(k) or Self-Employed 401(k):

This retirement plan is designed for self-employed individuals or business owners with no employees other than a spouse. It allows for higher contribution limits compared to other retirement plans. Employees may contribute up to $23,000 (with an additional $7,500 for those age 50 and older) or 100% of income, whichever is lower. For employers, the contribution limit in 2024 is $69,000 ($76,500 for individuals age 50 and older) or 100% of earned income, whichever is less. Solo 401(k)s also offer the option for Roth contributions, where contributions are made after-tax, allowing for tax-free withdrawals in retirement.

# 3. SOCIAL SECURITY:

## WHAT YOU NEED TO KNOW

*Understanding the ins and outs of Social Security can be challenging. As a whole, Social Security includes retirement benefits, disability benefits, survivor benefits, and Medicare. The following focuses on the retirement benefits component and opportunities for workers to maximize these benefits over their lifetimes.*

### 1. How are Social Security Benefits Calculated?

The size of your monthly Social Security check upon retirement depends on your earnings prior to age 62 and how much you paid in Social Security taxes during your working years. Your previous earnings are adjusted for inflation, and earnings for the highest-earning 35 years are averaged. If you have less than 35 years of earnings, zeros are averaged in for the years you didn't pay into Social Security.

### 2. Who is Eligible for Social Security Retirement Benefits?

To be eligible for Social Security benefits, you must earn at least 40 credits (earned when you work and pay Social Security taxes). In 2024, you receive one credit for each $1,730 you earn, up to four credits per year. If you do not qualify for benefits by working and earning at least 40 credits, you may be able to claim benefits under the record of your spouse or ex-spouse.

### 3. What is the Maximum Social Security Retirement Benefit?

In 2024, the maximum amount an individual can qualify to receive per month if he/she retires at full retirement age (age 66) in 2024 is $3,822. The highest benefit for those who qualify and delay claiming until age 70 is $4,873 (for high income earners). However, your actual benefits depend on several factors.

### 4. What Factors Affect the Amount of my Social Security Retirement Benefits?

**A. Your Earnings:** The biggest factor in determining your benefits is the amount earned during your highest-earning 35 years before age 62, adjusted for cost-of-living increases.

**B. Your Age:** The age at which you start taking benefits affects how much you receive per month once you start. The longer you wait to start taking benefits, up to age 70, the higher your monthly benefits. If you start taking benefits prior to full retirement age, your benefits will be permanently reduced.

**C. Other Income:** If you earn income in the same year you receive benefits and have not reached full retirement age, your Social Security benefits may be reduced.

**D. Pensions:** A pension from a job in which you did not pay Social Security taxes, such as a government job, will reduce your benefit.

### 5. When Can I Claim Social Security Retirement Benefits?

You can claim your Social Security retirement benefits as early as age 62 or survivor benefits as early as age 60. The full retirement age is 66 if you were born from 1943 to 1954. The full retirement age increases gradually for those born from 1955 to 1960, until it reaches age 67. For anyone born 1960 or later, full retirement benefits are payable at age 67.

**If You Claim Early:** If you choose to start receiving benefits early, your benefits are reduced by a certain percentage for each month before you reach full retirement age. If you collect Social Security benefits before your full retirement age and continue to work, you will forfeit some or all of your Social Security benefits if your earnings exceed specified limits. Once you reach your full retirement age, you can earn any amount without affecting your benefits.

**If You Are Married:** Our advisors recommend that couples make decisions about their Social Security claiming strategy as an economic unit, considering what is in the best combined interest of both spouses to maximize their total lifetime benefit. This analysis considers factors such as income, age, and health of each spouse and explores claiming strategies such as "file and suspend," "restricted application," and "spousal benefits."

***We encourage clients to consult with their financial advisor to ensure their Social Security claiming strategy complements their overall retirement plan.***

# 4. NAVIGATING MEDICARE:

## A BRIEF OVERVIEW

***Enrolling in Medicare is a crucial step for individuals approaching age 65 or those who qualify due to certain disabilities. Understanding when to sign up and evaluating various strategies can significantly impact healthcare coverage and overall financial well-being.***

Individuals become eligible for Medicare at the age of 65. The Initial Enrollment Period (IEP) spans seven months — from three months before turning 65, including the birthday month, to three months after. Enrolling during this window ensures coverage begins promptly. Delaying enrollment may result in penalties, specifically for Medicare Part B, which covers outpatient services.

One strategy to consider is whether to delay Medicare Part B enrollment if the individual continues to work and has employer-sponsored health coverage. In such cases, individuals may qualify for a Special Enrollment Period (SEP) when they retire or lose employer coverage, allowing them to sign up for Part B without penalties. However, it's crucial to assess the costs and benefits of delaying enrollment, as penalties and gaps in coverage may outweigh potential savings.

Understanding different parts of Medicare is essential for making informed decisions. Medicare includes four parts: Part A (hospital insurance), Part B (medical insurance), Part C (Medicare Advantage), and Part D (prescription drug coverage). Individuals may opt for Original Medicare (Part A and Part B) or choose a Medicare Advantage plan, which combines Parts A and B with additional benefits. Our advisors can guide clients based on their personal healthcare needs, budget constraints, and preferred healthcare providers.

**Review prescription drug coverage.** When selecting Medicare Part D, which provides prescription drug plans, carefully select a plan that covers necessary medications at an affordable cost. Failure to enroll in Part D during the IEP may result in penalties unless the individual has creditable prescription drug coverage elsewhere.

**Consider supplemental coverage,** such as Medigap, which helps cover out-of-pocket costs that Original Medicare doesn't. Medigap plans have a six-month open enrollment period starting the month you turn 65 and enroll in Part B, during which you can purchase any Medigap policy without underwriting.

***The timing of Medicare enrollment and the choices made can significantly impact your healthcare coverage and financial stability. Understanding the enrollment periods, exploring available plans, and considering individual healthcare needs can help you secure comprehensive coverage.***

# 5. CORPORATE TRANSPARENCY ACT

## NEW LEGISLATION AFFECTING BUSINESS OWNERS

***The Corporate Transparency Act (CTA) is legislation that was enacted in 2021 but took effect on January 1, 2024. It is intended to enhance transparency in business entities, especially small LLCs and partnerships, to combat money laundering, tax fraud, and other illicit activities.***

Under the CTA, certain types of entities called "reporting companies" are required to file beneficial ownership information (BOI) with the Financial Crimes Enforcement Network (FinCEN), a bureau of the U.S. Department of the Treasury. As of this writing, the constitutionality of the new law is being challenged in court.

Corporations existing prior to January 1, 2024 have until January 1, 2025 to file the required report. Reporting companies created after January 1, 2024 are required to comply with the CTA within 90 days of incorporation.

Businesses that are excluded from the definition of a reporting company include nonprofits, publicly traded companies, certain financial institutions, and other entities already subject to federal and/or state regulation.

Beneficial owners include individuals who exercise substantial control over an entity or who own or control 25% or more of the ownership interests of the entity. Failure to comply with the reporting requirements or providing false information can result civil and criminal penalties.

Business owners should consult with legal professionals and review the CTA to review their obligations under the legislation. As of this writing, the constitutionality of the new law is being challenged in court.

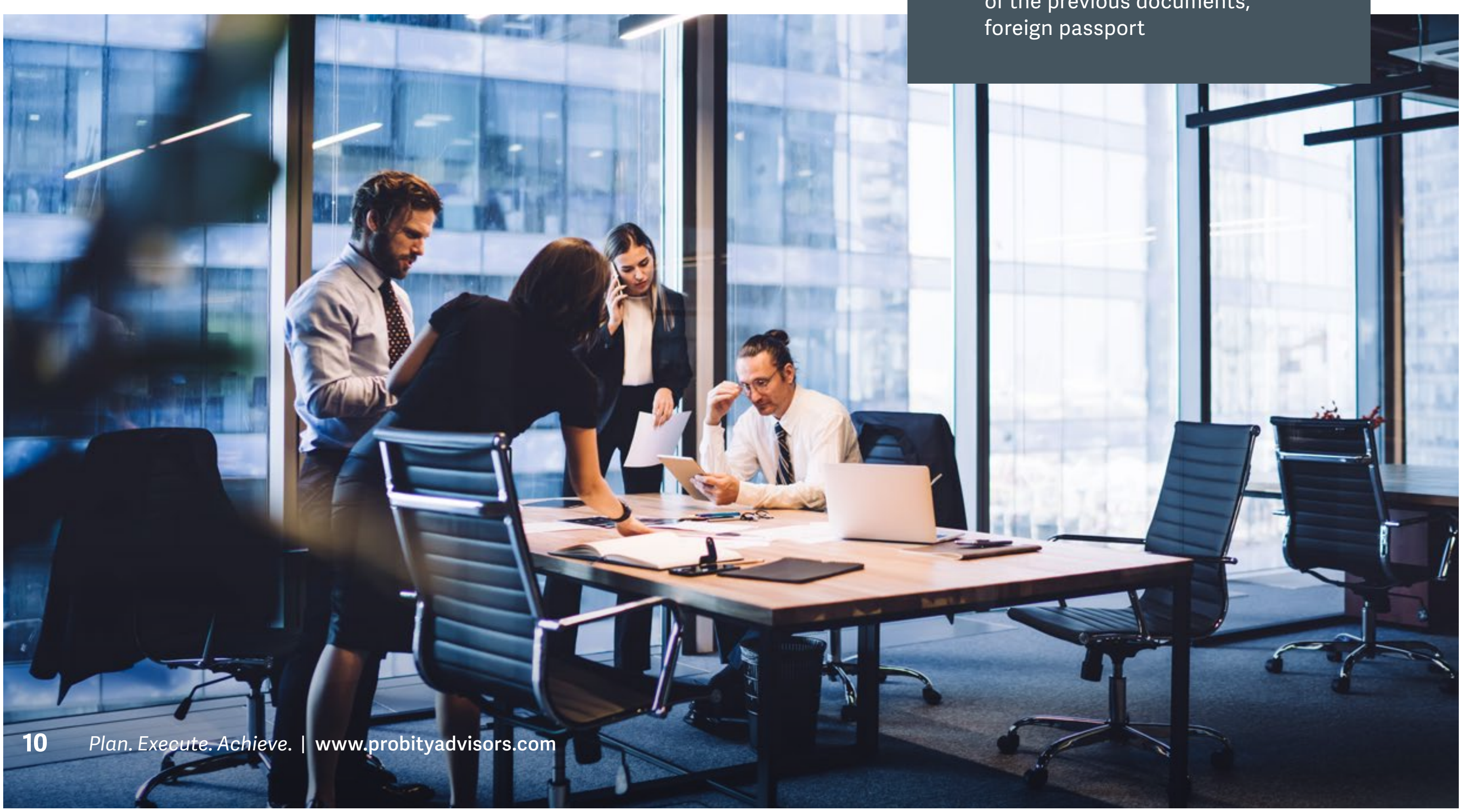
**The Corporate Transparency Act requires certain entities to report the following Beneficial Ownership Information:**

### REPORTING COMPANY

- Business name and any *"doing business as"* (DBA) name
- U.S. address
- Jurisdiction of formation
- Internal Revenue Service (IRS) Taxpayer Identification Number (TIN)

### BENEFICIAL OWNER INFORMATION

- Full legal name
- Date of birth
- Address
- Unique identifying number and issuing jurisdiction from one of the following documents (and image of document):
  - » U.S. passport
  - » Driver's license
  - » Identification document issued by a state, local government, or tribe
  - » If an individual does not have any of the previous documents, foreign passport



# 6. FOSTERING FAMILY LEGACIES:

## THE VITAL ROLE OF FAMILY GOVERNANCE IN ESTATE PLANNING

Across cultures, there is a timeless saying, "Shirtsleeves to shirtsleeves in three generations," reflecting the universal challenge of preserving wealth across time. Similar expressions echo this sentiment, such as Japan's "Rice paddies to rice paddies in three generations," and Scotland's "The father buys, the son builds, the grandchild sells, and his son begs." These remind us of the common narrative where the first generation toils to build wealth, the second generation inherits it, and the third often struggles to maintain it.

However, this narrative can be transformed. Families can create legacies that endure through generations by instilling values, fostering understanding, and implementing effective strategies to preserve wealth.

A successful transfer of multi-generational wealth encompasses more than just financial assets. We advocate for a holistic approach that includes four sources of capital: human capital (the family members), intellectual capital (the values that underpin the wealth), social capital (relationships within the family and community), and financial capital (the assets). In our experience, legacy-minded families recognize the importance of nurturing all of these forms of capital, knowing that it is just as important to prepare the family for the money as it is to prepare the money for the family. In other words, they understand that preparing the family to steward wealth is as crucial as managing the assets themselves.

A family governance system is the cornerstone of sustaining and perpetuating family legacies and helps families navigate the challenges of legacy continuity. It begins with identifying the principles, policies, and practices in a family that contribute to a shared vision of family money, and, more importantly, a process for making decisions about the family's wealth. Our advisors help families develop a family governance system to (1) educate future generations about the family's legacy, (2) help build a sense of accountability towards sustaining family wealth, and (3) ensure the family operates efficiently and harmoniously now and into the future.

### FAMILY MISSION STATEMENT

***Families can help preserve their legacy through a Family Mission Statement, a beneficial tool for passing on the values, traditions, and history that matriarchs and patriarchs desire to preserve. A Family Mission Statement also serves as a guide regarding expectations for how a family's wealth should be used in the near term and in the future.***

# 7. SECURING YOUR FUTURE:

## A FINANCIAL WELLNESS CHECKLIST

***To help simplify the complexities of managing your financial life, our team of professionals has provided the following Financial Welness Checklist:***

- ☐ Review your Probity Advisors, Inc. Investment Profile, which includes your investment preferences, your risk profile, and your personal information, and call our office with any changes
- ☐ Review your estate plan, including your will, trusts, and power of attorney appointment(s)
- ☐ Conduct a beneficiary review of all of your accounts to ensure there are no changes or updates needed
- ☐ Review your digital estate plan to ensure your heirs have access to any online accounts or digital property
- ☐ If you have children or grandchildren, consider contributing to or opening a 529 college savings account
- ☐ Contribute to retirement accounts and review your 401(k) withholding to ensure you are receiving the maximum employer match
- ☐ Review your insurance needs
- ☐ Plan for any charitable contributions you wish to make and discuss tax efficient options with your advisor, such as gifting highly appreciated securities to your charity
- ☐ Consider having a family meeting to coordinate and communicate financial and estate matters
- ☐ Take your Required Minimum Distribution from your retirement plans
- ☐ Communicate with business partners, employees, and anyone who may need to understand your business succession plan
- ☐ Meet with your advisor to ensure you are on track to achieving your financial goals

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PROBITY ADVISORS, INC®

# Plan. Execute. Achieve.

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