

IT'S ASCENTIAL TO KNOW

VOLUME 17 • 2024 IN THIS ISSUE

- ▶ Is Social Security Going Away?
- ▶ American Opportunity Tax Credit
- ▶ Does having a will avoid probate?
- ▶ 529 to Roth Conversions

Is Social Security Going Away?

Recent headlines and political soundbites regarding Social Security's financial condition can create concern for retirees and investors planning for retirement. Many are claiming the pending demise of the Social Security system or that benefits from the program could be eliminated entirely. As is often the case, headlines can be misleading.

▶ IS SOCIAL SECURITY GOING AWAY?

The short answer is no, Social Security is not going away. However, without meaningful changes, the program could run short of funds and benefits could be reduced in the future.

▶ WHY IS THERE A POTENTIAL SHORTFALL?

The Social Security system is funded through two sources:

- Payroll taxes collected from today's workers and their employers
- Social Security trust fund assets

For over three decades, the Social Security system collected more in payroll taxes and other income than it paid in benefits. During this time, the system accumulated the excess assets in a large trust fund reserve, ultimately reaching a total trust reserve balance of \$2.9 trillion. Social Security began redeeming assets from the reserve to help fund benefits in 2021, when its total outflows started exceeding its total

inflows. The trust fund reserves will continue to make up the difference until the reserve fund is depleted, and currently that is estimated to happen in 2033 (JP Morgan Asset Management, 2024). The excess cost of benefits compared to income and the need to draw on the reserve funds is largely due to changes in demographics. There are currently more people collecting Social Security than ever before as people are living longer. At the same time younger generations are getting smaller, so there are less workers to pay into the system. This combination strains the Social Security system. Today, for each retiree drawing benefits, 2.8 workers pay into the fund. In 1960, it was 5.1, and by 2035 this number will drop to 2.2. (Center on Budget and Policy Priorities, 2023).

The Social Security trustees recently released their annual report on the program's financial status, which included stated changes that will need to be made by 2033 to avoid benefit cuts. If adequate changes are not made, all Social Security recipients would see benefits cut by an estimated 21% (OASDI Annual Report, 2024). The "pay as you go" nature of the Social Security program, in which the majority of current benefits are funded by today's workers and their employers, means that the system would not be bankrupt.

Did You
Know?

Because most Social Security benefits are sourced by payroll tax, an estimated 79% of benefits would continue even with a shortfall in the program.

Is Social Security Going Away? (cont.)

▶ HAS THIS HAPPENED BEFORE?

Social Security has experienced financial hardship in the past. The last time the Social Security trust fund was nearly depleted occurred in 1983. Congress solved the problem by increasing taxes and gradually increasing the full retirement age.

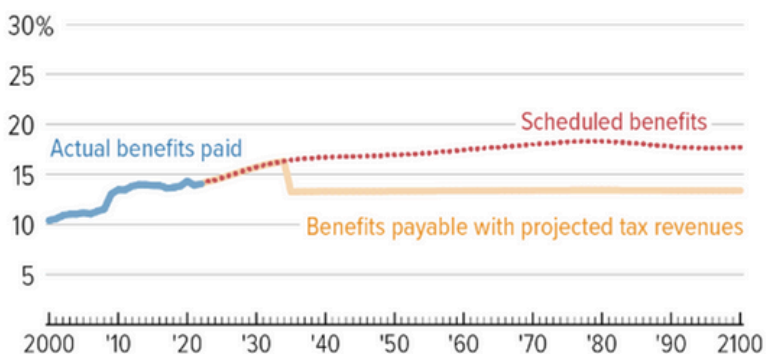
▶ HOW COULD CONGRESS RESOLVE THIS ISSUE?

Congress has several options to address the looming shortfall. Several ideas that have been discussed recently include:

- Increase the payroll taxes wage base. Today workers are required to pay payroll Social Security tax on annual wages up to \$168,800. This limit could be increased to further tax high earners.
- Delay younger workers' access to Social Security benefits by increasing the full retirement age. Congress would likely do this gradually like they have in the past.
- Decrease the annual cost of living adjustments paid to all current or future beneficiaries.
- Phased-in benefit cuts for younger workers and/or higher earners.

Even If Policymakers Fail to Act After Trust Fund Depletion, Social Security Could Pay Three-Quarters of Benefits

OASDI benefits as a percent of taxable payroll



Source: Center on Budget and Policy Priorities, 2024.

Congress could enact a variety of combinations of the options above or other solutions. The sooner policymakers act the more options they have and the smoother the transition will be for Americans.

▶ OUR VIEW

Retirees currently receiving benefits or people approaching retirement age will likely see their benefits continue as planned. However, younger people will likely need to save more over time as these workers are more likely to see changes to their benefits, through either decreased benefits or a delayed retirement age. If you have additional questions or concerns regarding how this issue may affect your financial plan, please let us know at your next review meeting.

AMERICAN OPPORTUNITY TAX CREDIT

The American Opportunity Tax Credit (AOTC) is a tax credit for qualified education expenses paid in you or your dependent's first four years of post-secondary education. The maximum annual credit available is \$2,500 per student, with 100% of the first \$2,000 and 25% of the next \$2,000 of qualified education expenses eligible for the credit, subject to the following income limits:

AOTC Modified Gross Income (MAGI) Limits (Single and Joint Filers)	
Under \$80,000 (Single) or \$160,000 (Joint)	100% of credit
Between \$80,000-\$90,000 (Single) or \$160,000-\$180,000 (Joint)	Reduced amount
Over \$90,000 (Single) or \$180,000 (Joint)	Ineligible for credit

Source: Internal Revenue Service (2024)

To be eligible, a student must be pursuing a degree or eligible post-secondary education, be enrolled at least half time for at least one academic period during the tax year, and they must not have already completed their first four years of higher education or claimed this tax credit for more than four tax years.

For additional information regarding eligibility, income limits, and applying for this tax credit, you can visit the IRS website for AOTC: www.irs.gov/credits-deductions/individuals/aotc

Does having a will avoid probate?

No. A common misconception is that having a will eliminates the need for probate, the legal process for finalizing affairs after an individual's death. While having a will can make the probate process simpler, it alone does not eliminate it.

▶ WHAT IS A WILL, AND HOW DOES IT IMPACT THE PROBATE PROCESS?

A will is an important estate planning document that provides direction regarding distribution of assets and other estate settlement items. It outlines your final wishes and ensures your preferences can be carried out. A will also captures and directs the transfer of assets that have not been handled by other estate planning methods.

If you leave a will, the probate court's role in the estate settlement process is to simply validate the will and appoint the executor to pay any debts or taxes and distribute assets that have not been directly designated to your beneficiaries. If you do not leave a will, the settling of your estate will rest entirely with the probate court, and your assets will be distributed according to your state's succession laws, which may not align with your wishes.



▶ SHOULD I TRY TO BYPASS PROBATE?

In most cases, yes. Probate can be complicated and stressful, especially in a time of grief for heirs. It can also be expensive and time consuming. Common costs may include attorney's fees, executor or personal representative fees, court costs and filing fees, and reimbursement costs. Assets that bypass probate can reduce the overall cost of the probate process, leaving more resources available to fulfill your final wishes.

Another issue to consider is privacy. Probate is a public legal process, so any assets that do not bypass the probate process will be included in public record.

▶ WHAT ELSE CAN I DO TO AVOID MY ASSETS GOING THROUGH PROBATE?

Assets can bypass the probate process through some common estate planning techniques included below:

▶ Own assets jointly

Owning assets (financial accounts or real property) jointly with your spouse, significant other, or desired heir(s) allows them to automatically maintain ownership after your passing.

▶ Name Primary and Contingent Beneficiaries

Retirement and employer sponsored accounts, and some other financial accounts, allow account owners to name beneficiaries directly, ensuring account holdings and balances are directly and quickly transferred to desired beneficiaries.

▶ Make assets payable or transferrable on death

Designating assets (financial accounts or real property) to be payable or transferable on death establishes an automatic transfer of ownership after the account owner(s) passing. This option is an effective alternative for designating a contingent beneficiary for jointly owned assets or in the event joint ownership is not a preferred option.

▶ Utilize a trust if appropriate

Holding property in a trust requires the trustee to manage the assets according to its terms. Assets in a revocable living trust can be used while you are alive and will transfer to beneficiaries after you pass based on the terms of the trust. An estate attorney can advise if a trust is appropriate for your situation and ensure that trust documents accomplish your wishes.

▶ Considering gifting before death

Transferring ownership of assets before death keeps those assets out of probate entirely. Gifting should only be done with excess assets and within annual gift tax limits unless a gift tax return is filed. Often no tax will be due on gifts above the annual limit based on the current lifetime exemption amounts, but they must be documented by filing a gift tax return.

▶ Consult an estate attorney

Estate attorneys can advise these or additional options based on your unique circumstances and your final wishes for your estate.

Estate documents and beneficiaries should be reviewed periodically and updated when needed. If you have questions about your current estate plan or beneficiary designations on your Raymond James accounts, talk with your advisor during your next review or contact our office any time.

529 to Roth Conversions (now available)

The Secure Act 2.0 includes a provision allowing for the conversion of unused 529 account balances to a Roth IRA as a nontaxable distribution. These conversions are now available for Raymond James accounts, subject to the following requirements:

► 529 TO ROTH CONVERSION CRITERIA

- The Roth IRA account must be in the same name as the 529 beneficiary.
- The 529 account must have been open for at least 15 years to be eligible.
- Contributions made to the 529 account within the last 5 years are ineligible for conversion.
- There is a lifetime limit of \$35,000 for conversions from a 529 account to a Roth IRA for each beneficiary.
- Conversion amounts are subject to IRA annual contribution limits, and the 529 beneficiary must have earned income sufficient to make the rollover contribution.

Please contact us if you want to learn more about this opportunity. We can help determine eligibility, execute conversions, and incorporate this feature into your financial plan.

GET THERE FROM HERE



Kristin Rognerud,
Financial Advisor

Mike Owens,
Financial Advisor

Daniel Maki,
Financial Advisor

Alex Meehan,
Financial Advisor

Alison Paulseth-Bautch,
Financial Advisor

Barb Perrault,
Registered Client Services Mgr.

Lori Spilde,
Client Services Mgr.

Barb Nelson,
Operations Manager

DISCLOSURES: This material is being provided for informational purposes only and is not a complete description, nor is it a recommendation. Any opinions are those of Ascential Wealth Advisors and not necessarily those of Raymond James. The information has been obtained from sources considered to be reliable, but Raymond James does not guarantee that the foregoing material is accurate or complete. Please note, changes in tax laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax provisions of the issues presented herein, as Financial Advisors of RJFS, we are not qualified to render advice on tax or legal matters. You should discuss tax or legal matters with the appropriate professional. Investing involves risk and investors may incur a profit or loss regardless of strategy selected. Prior to making an investment decision, please consult with your financial advisor about your individual situation.

Ascential Wealth Advisors is an independent practice. Securities offered through Raymond James Financial Services, Inc., member FINRA/SIPC. Investment advisory services offered through Raymond James Financial Services Advisors, Inc. Ascential Wealth Advisors is not a registered broker/dealer and is independent of Raymond James Financial Services.