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James Sadrianna PA - January 2025 Newsletter

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New for 2025, workers age 60 to 63 can make a larger "super catch-up" contribution of $11,250.

Dreaming of Retirement? Consider Maxing Out Your 401(k) in 2025

About 70% of U.S. private-sector workers have the option to contribute to a retirement plan such as a 401(k), 403(b), or 457(b) plan provided by an employer. Unfortunately, many of them don't take full advantage of this tax-friendly opportunity to save for the future.[1]

The SECURE Act and SECURE 2.0 Act (federal legislation passed in 2019 and 2022, respectively) sought to improve Americans' retirement security by expanding access to workplace retirement accounts and encouraging workers to save more. As a result, some older workers will be allowed to make bigger contributions to their retirement accounts in 2025.

That's good news if you are one of the many Americans who have experienced bouts of unemployment, took time out of the workforce for caregiving, helped pay for pricey college educations for your children (or yourself), or faced other financial challenges that prevented you from saving consistently. You may have some catching up to do. And regardless of your age, the responsibility for saving enough and investing wisely for retirement is largely in your hands.

Starting out strong

The funds invested in tax-deferred retirement accounts accumulate on a tax-deferred basis, which means you don't have to pay any required taxes until you withdraw the money. Instead, all returns are reinvested so they can continue compounding through the years. This is the main reason why young workers can really benefit from saving as much as they can, as soon as they can.

Many companies will match part of employee 401(k) contributions, so it's a good idea to save at least enough to receive full company matches and any available profit sharing (e.g. 5% to 6% of salary). But to set yourself up for a comfortable retirement, you might elect to automatically increase your contribution rate by 1% each year (if that option is available) until you reach your desired rate, such as 10% to 15%.

Saving to the max

If you have extra income that you would like to save, keep in mind that the employee contribution limit for 401(k), 403(b), and government 457(b) plans is $23,500 in 2025, with an additional $7,500 catch-up contribution for those age 50 and older, for a total of $31,000.

New for 2025, workers age 60 to 63 can make a larger "super catch-up" contribution of $11,250 for a total of $34,750. Like all catch-up contributions, the age limit is based on age at the end of the year, so you are eligible to make the full $11,250 contribution if you will turn 60 to 63 any time during 2025 (but not if you will turn 64).

You might also want to find out if your employer's plan allows special after-tax contributions. If so, consider yourself lucky, because this feature is not very common, especially at smaller companies.

In 2025, the combined total for salary deferrals (not including catch-up contributions), employer contributions, and employee after-tax contributions is $70,000 or 100% of compensation, whichever is less.

You generally must max out salary deferrals before you can make additional after-tax contributions. For example, if you are age 60, and you contribute the maximum $34,750 to your 401(k), and your employer contributes $15,000, you may be able to make a sizable after-tax contribution of $31,500 for a grand total of $81,250.

SIMPLE retirement plans (offered by smaller companies) operate under different rules and have lower limits: $16,500 in 2025 plus an additional $3,500 catch-up for employees age 50 and older or an additional $5,250 for employees age 60 to 63. (Certain SIMPLE plans may have higher limits.)

All of these contribution and catch-up limits are indexed annually to inflation.

Choosing between traditional or Roth

Traditional (or pre-tax) contributions are deducted from your paycheck before taxes, resulting in a lower current tax bill, and withdrawals are taxed as ordinary income. Roth contributions are considered "after-tax," so they won't reduce the amount of current income subject to taxes, but qualified distributions down the road will be tax-free (under current law).

A Roth distribution is considered qualified if the account is held for five years and the account owner reaches age 59½, dies, or becomes disabled. (Other exceptions may apply.)

Withdrawals from pre-tax retirement accounts prior to age 59½ and nonqualified withdrawals from Roth accounts are subject to a 10% penalty on top of ordinary income taxes. However, because Roth contributions are made with after-tax dollars, they can be withdrawn at any time without tax consequences.

When deciding between traditional and Roth contributions, think about whether you are likely to benefit more from a tax break today than you would from a tax break in retirement. Specifically, if you expect to be in a higher tax bracket in retirement, Roth contributions may be more beneficial in the long run.

But you should also consider that generally you will have to take taxable required minimum distributions (RMDs) from traditional accounts once you reach age 73 (or 75, depending on year of birth), whether you need the money or not. Roth accounts are not subject to RMDs during your lifetime, which can make them useful for estate planning purposes. This also provides flexibility to make withdrawals only when necessary and could help you avoid unwanted taxes or Medicare surcharges.

Splitting your contributions between traditional and Roth accounts could help create a wider range of future options.

Lastly, there's another new rule that could impact your contribution decisions over the coming years. Starting in 2026, all of your catch-up contributions will have to be Roth contributions if you earned more than $145,000 during the previous year.

1) U.S. Bureau of Labor Statistics, 2024

Personal data is a valuable commodity, and there will always be entities, whether criminals or legitimate businesses, who want to obtain and use your personal information.

Data for Sale: Tips to Help Protect Your Private Information

On December 3, 2024, the Federal Trade Commission (FTC) announced a proposed settlement in legal action against a data broker named Mobilewalla, which was accused of using location data obtained through online advertising auctions to identify consumers by factors such as private home address and visits to health-care clinics and churches.

In an online auction, a data broker bids to place "real-time" ads for its clients on a consumer's cell phone or other mobile device, based on consumer data shared in the auction, which typically includes a unique mobile advertising identifier (MAID) and the consumer's location at the time of the auction. The FTC alleged that Mobilewalla retained data regardless of whether or not it won the auction and made no reasonable effort to determine if consumers had given permission to use their data.

According to the complaint, between January 2018 and June 2020, Mobilewalla collected more than 500 million MAID/location pairings and sold the raw data to advertisers, data brokers, and analytics firms. The company also used the data to create audience segments for their clients by processing it through virtual "geofences" around specific sites. For example, MAIDs that appeared within geographic coordinates around pregnancy centers were used to build audience segments targeting pregnant women. Other targeted sites included churches, labor offices, LGBTQ+ locations, and political or protest gatherings.

A gray area

Regulation of data brokers is a gray area, and this is the first time the FTC has alleged that obtaining consumer data from online advertising auctions for purposes other than participating in the auction is an unfair practice. On the same day the FTC released its proposed settlement, the Consumer Financial Protection Bureau proposed a rule requiring data brokers who sell certain sensitive consumer information to be considered consumer reporting agencies under the Fair Credit Reporting Act, which would require them to follow more rigorous practices regarding accuracy, safeguards, and consumer access to their own data. For now, however, this rule and the FTC settlement are only proposals.

Privacy vs. convenience

Regardless of government regulations, the burden for protecting your private information falls primarily on you. Personal data is a valuable commodity, and there will always be entities, whether criminals or legitimate businesses, who want to obtain and use your personal information. Protecting your data takes work, and you may have to choose between privacy and convenience.

Basic security

Data brokers like Mobilewalla are not directly stealing data, but there are plenty of criminals who try to do that every day. A sound security strategy starts with creating a unique strong password for every site and using two-factor authorization for any site containing sensitive information. Never click on links in a text, email, or website unless you know exactly where the link is going to take you. Don't reply to emails unless you know the sender. Criminals can "spoof" an email address by making the name appear legitimate. Check the actual email address behind the name and look carefully at logos or other content used to make a spam email look legitimate — it's usually fairly easy to see that it is not. For more tips on data security, see consumer.ftc.gov/articles/protect-your-personal-information-hackers-and-scammers.

Control what you reveal

Basic security measures may help protect you from criminals, but if you are like most people, you are giving away personal data every day. Here are some tips to limit what you offer.

Turn off tracking. The MAID number on your mobile device allows it to be tracked across websites. Unless you want personalized ads, there is generally no reason to allow tracking. On an iPhone or iPad, go to Settings > Privacy & Security > Tracking and turn off *Allow Apps to Request to Track.* This will prevent apps from tracking in the future and prompt you to revoke permission for any apps you have allowed to track. Apple also has its own targeted ad system, which you can disable at Settings > Privacy > Apple Advertising. On an Android device, go to Settings > Privacy > Ads and tap *Delete Advertising ID.* Or you can tap *Reset Advertising ID* to delete past tracking and create a new ID for future tracking.

Limit cookies and delete browser data. Cookies are small packets of data that allow a website to identify you. Some cookies are necessary, but most are not. Many websites offer an option to limit usage to functional cookies. You can set global rules for cookies in your browser and/or use private browsing mode. It's a good idea to clear your cookies and other browser data regularly. This option can be found with browser settings, and you will typically be able to choose the type of data and timeframe to delete.

Limit geolocation data. Your phone goes where you go, so any app that has access to your location is tracking valuable private information. Some apps — such as a map or compass app — obviously need access to your location. But most apps do not. You can set location permissions for each app in your phone's settings.

Be aware that your phone may be listening. If you use a virtual assistant app like Siri or Google Assistant, your phone has to be listening at all times in order to respond to your questions and commands. Apple and Google claim that those apps only listen for that purpose, but other apps may also be listening. Review the microphone settings for all your apps. If you are really concerned, turn off your voice-activated assistant.

Do not respond to online quizzes or other online questions. They may seem like fun, but the purpose is to obtain personal information that may be used to target you.

Be careful with social media. Your social media posts and the posts you click are a prime source of information for advertisers and other profilers. Look at the settings in your social media platform(s) and limit access to your posts and your account. But remember that anything you click can probably be tracked and anything you post can probably be found.

Am I Having Enough Withheld?

If you fail to estimate your federal income tax withholding properly, it may cost you in a variety of ways. If you receive an income tax refund, it essentially means that you provided the IRS with an interest-free loan during the year. By comparison, if you owe taxes when you file your return, you may have to scramble for cash at tax time — and possibly owe interest and penalties to the IRS as well.

When determining the correct withholding amount for your salary or wages, your objective should be to have just enough taxes withheld to prevent you from incurring penalties when your tax return is due. (You may owe some money at the time you file your return, but it shouldn't be much.) You can accomplish this by reading and understanding IRS Publication 505, properly completing Form W-4 (and accompanying worksheets), and providing an updated Form W-4 to your employer when your circumstances change significantly.

Form W-4 helps you determine the proper withholding amount

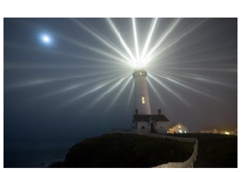
Two factors determine the amount of income tax that your employer withholds from your regular pay: the amount you earn and the information you provide on Form W-4. This form asks you for three pieces of information:

- The number of withholding allowances you want to claim: You can claim up to the maximum number you're entitled to, claim less than you're entitled to, or claim zero.
- Whether you want taxes to be withheld at the single, married, or married with tax withheld at single rate: The married status, which is associated with a lower withholding rate, should generally be selected only by those taxpayers who are married and file a joint return. Those who are married and file separately should select married with tax withheld at single rate.
- The additional amount (if any) you want withheld from your paycheck: This is optional; you can specify any additional amount of money you want withheld.

When both spouses work and have taxes withheld at the married rate, they sometimes end up with insufficient taxes withheld. If this happens to you, remember that you can always choose to withhold at the single rate. In addition, you can determine the proper withholding amount by completing Form W-4's two-earner/two-job worksheet.

Complete the worksheets to claim the correct number of allowances

To understand Form W-4, you must understand allowances. Think of allowances as cash in your pocket at the time that you receive your paycheck. The more allowances you claim, the less taxes are taken from your paycheck (and the more cash ends up in your pocket on payday). For example, you can maximize the amount withheld from your paycheck to ensure that you have enough tax withheld to cover your tax liability by claiming zero allowances. This will reduce the amount of cash you take home in your paycheck. The following factors determine your number of allowances:



- The number of jobs that you work
- The deductions, adjustments to income, and credits that you expect to take during the year
- Your filing status
- Whether your spouse works

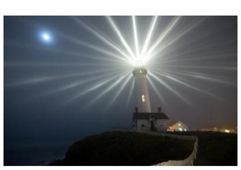
To claim the correct number of allowances, you should complete Form W-4's worksheets. These include a personal allowances worksheet, a deductions and adjustments worksheet, and a two-earner/two-job worksheet. IRS Publication 505 (Tax Withholding and Estimated Tax) explains these worksheets.

Check your withholding

To avoid surprises at tax time, it's a good idea to periodically check your withholding. If you accurately complete all Form W-4 worksheets and don't have significant nonwage income (e.g., interest and dividends), it's likely that your employer will withhold an amount close to the tax you'll owe on your return. But in the following cases, accurate completion of the Form W-4 worksheets alone won't guarantee that you'll have the correct amount of tax withheld:

- When you're married and both spouses work, or if either of you start or stop working
- When you or your spouse are working more than one job
- When you have significant nonwage income, such as interest, dividends, alimony, unemployment compensation, or self-employment income, or the amount of your nonwage income changes
- When you'll owe other taxes on your return, such as self-employment tax or household employment tax
- When you have a lifestyle change (e.g., marriage, divorce, birth or adoption of a child, new home, retirement) that affects the tax deductions or credits you may claim
- When there are tax law changes that affect the amount of tax you'll owe

In these cases, IRS Publication 505 can help you compare the total tax that you'll withhold for the year with the tax that you expect to owe on your return. It can also help you determine any additional amount you may need to withhold from each paycheck to avoid owing taxes when you file your return. Alternatively, it may help you identify if you're having too much tax withheld. If you find that you need to make changes to your withholding, you can do so at any time simply by submitting a new Form W-4 to your employer.



"The U.S. economy is in a good place. And our decision today is designed to keep it there." — Fed Chair Jerome Powell

The Fed Finally Cut Interest Rates. What Could It Mean for Your Finances?

On September 18, 2024, the Federal Reserve's Federal Open Market Committee (FOMC) lowered the benchmark federal funds rate one-half percentage point to a range of 4.75% to 5.0%. It was the first rate cut since the Fed raised the funds rate aggressively from March 2022 to July 2023 to help control inflation.[1]

The long-awaited policy shift suggests that a soft landing — the rare feat of bringing down inflation without causing a recession — is in sight. It also marks a critical juncture for the economy, with significant implications for consumers, businesses, and investors.

Why now?

The Federal Reserve operates under a dual mandate to foster maximum employment and stable prices for the benefit of the American public. For a couple of years rising prices have been considered the more serious threat, but the inflation rate has moved much closer to the Fed's 2.0% target.

Officials now see these two risks as "roughly in balance." In his post-meeting press conference, Fed Chair Jerome Powell said, "The labor market has cooled from its formerly overheated state, inflation has eased substantially from a peak of 7% to an estimated 2.2%, as of August."[2]

In recent months, job gains have slowed considerably, and unemployment climbed from 3.8% in March to 4.2% in August. Powell maintained that employment data remains at solid levels, but recent changes suggest the downside risks have increased.[3–4]

Relief for borrowers

Lowering the federal funds rate helps to reduce borrowing costs across the board, creating breathing room in the budgets of many households and businesses.

The prime rate, which commercial banks charge their best customers, typically moves with the federal funds rate. Though actual rates can vary widely, small-business loans, adjustable-rate mortgages, home equity lines of credit, auto loans, credit cards, and other forms of consumer credit are often linked to the prime rate, so the rates on these types of loans should adjust lower relatively soon after a Fed rate cut.

Borrowers with home equity lines of credit, adjustable-rate mortgages, credit card balances, or other outstanding loans with variable interest rates should see their monthly payments fall as well, in many cases within a couple of billing cycles.

Mortgage rates are influenced by a mix of complex factors that includes Fed policies, longer-term inflation expectations, and government bond market dynamics. The rates for 30-year fixed mortgages, which tend to track the yield on the 10-year Treasury note, fell steeply in August after government reports confirmed that inflation and the job market were cooling.[5]

The average rate on a 30-year fixed-rate mortgage was 6.09% on September 19, the lowest in 19 months. This is down from a recent peak of 7.22% in early May. Aspiring home buyers have gained significant purchasing power since last spring and mortgage rates may continue to fall gradually, but it's also possible that much of the anticipated decline in interest rates has already been priced in.[6]

Too much cash on hand?

Savers have enjoyed being rewarded for holding cash in high-yield savings accounts and short-term certificates of deposits (CDs). Although it may not happen overnight, they should be prepared for the yields on these accounts to follow the Fed funds rate downward.

Investors who have more cash savings than they expect to need in the next couple of years might consider locking into today's relatively high yields by shifting money into CDs or bonds with fixed interest rates and longer terms. For example, someone could purchase bonds that mature when the money is likely to be needed for retirement expenses or to pay for a child's college education.

Moving more money into stocks, which have historically generated higher average returns over time, is a riskier option that may be appropriate for investors who intend to hang on to them for the long haul, but only if they can endure frequent price swings.

Rate cuts in a strong economy

Past rate-cutting cycles have aimed to boost growth when the economy was in trouble, which doesn't appear to be the case this time around. Powell stated clearly, "The U.S. economy is in a good place. And our decision today is designed to keep it there."[7]

In the second quarter of 2024, U.S. gross domestic product (GDP) expanded at a healthy 3.0% annual rate, and recent forecasts based on the Atlanta Fed's GDPNow model indicate that the economy grew at a similar pace in the third quarter.[8–9]

The September rate cut — which officials hope will keep job market conditions from worsening — is presumably a starting point. The Fed plans to keep cutting interest rates until they reach a neutral stance that should no longer impact the economy for better or worse. According to current FOMC projections, the fed funds rate could drop an additional 0.50% by the end of 2024, and another 1.0% over 2025.[10]

It can take time for borrowing rates to respond to changes in the fed funds rate and noticeably impact the decisions of consumers and businesses. This "lag" in the effects of monetary policy is one reason that some people fear the economy is not out of the woods.

Whatever happens next, the Committee intends to make policy decisions "meeting by meeting based on the incoming data, the evolving outlook, and balance of risks."[11]

The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution. The return and principal value of an investment in bonds or stocks fluctuate with changes in market conditions and, when sold, these securities may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk. Forecasts are based on current conditions, subject to change, and may not come to pass.

1, 9–10) The Federal Reserve, 2024

2, 4, 7, 11) *The Wall Street Journal,* September 18, 2024

3) U.S. Bureau of Labor Statistics, 2024

5) *The New York Times,* August 8, 2024

6) Freddie Mac, 2024

8) U.S. Bureau of Economic Analysis, 2024

Understanding Social Security

Almost 72 million people today receive some form of Social Security benefits, including retirement, disability, survivor, and family benefits.[1] Although most people receiving Social Security are retired, you and your family members may be eligible for benefits at any age, depending on your circumstances.

How does Social Security work?

The Social Security system is based on a simple premise: Throughout your career, you pay a portion of your earnings into a trust fund by paying Social Security or self-employment taxes. Your employer, if any, contributes an equal amount. In return, you receive certain benefits that can provide income to you when you need it most — at retirement or when you become disabled, for instance. Your family members can receive benefits based on your earnings record, too. The amount of benefits that you and your family members receive depends on several factors, including your average lifetime earnings, your date of birth, and the type of benefit that you're applying for.

Your earnings and the taxes you pay are reported to the Social Security Administration (SSA) by your employer, or if you are self-employed, by the IRS. The SSA uses your Social Security number to track your earnings and your benefits.

You can find out more about future Social Security benefits by signing up for a *my* Social Security account at the Social Security website, ssa.gov, so that you can view your online Social Security Statement. Your statement contains a detailed record of your earnings, as well as estimates of retirement, survivor, and disability benefits. If you're not registered for an online account and are not yet receiving benefits, you'll receive a statement in the mail every year, starting at age 60. You can also use the Retirement Estimator calculator on the Social Security website, as well as other benefit calculators that can help you estimate disability and survivor benefits.

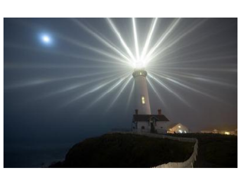
Social Security eligibility

When you work and pay Social Security taxes, you earn credits that enable you to qualify for Social Security benefits. You can earn up to 4 credits per year, depending on the amount of income that you have. Most people must build up 40 credits (10 years of work) to be eligible for Social Security retirement benefits, but need fewer credits to be eligible for disability benefits or for their family members to be eligible for survivor benefits.

Your retirement benefits

Your Social Security retirement benefit is based on your average earnings over your working career. Your age at the time you start receiving Social Security retirement benefits also affects your benefit amount. If you were born between 1943 and 1954, your full retirement age is 66. Full retirement age increases in two-month increments thereafter, until it reaches age 67 for anyone born in 1960 or later.

But you don't have to wait until full retirement age to begin receiving benefits. No matter what your full retirement age, you can



begin receiving early retirement benefits at age 62. Doing so is sometimes advantageous. Although you'll receive a reduced benefit if you retire early, you'll receive benefits for a longer period than someone who retires at full retirement age.

You can also choose to delay receiving retirement benefits past full retirement age. If you delay retirement, the Social Security benefit that you eventually receive will be as much as 8 percent higher for each year you wait. That's because you'll receive a delayed retirement credit for each month that you delay receiving retirement benefits, up to age 70.

Disability benefits

If you become disabled, you may be eligible for Social Security disability benefits. The SSA defines disability as a physical or mental condition severe enough to prevent a person from performing substantial work of any kind for at least a year. This is a strict definition of disability, so if you're only temporarily disabled, don't expect to receive Social Security disability benefits — benefits won't begin until the sixth full month after the onset of your disability. And because processing your claim may take some time, apply for disability benefits as soon as you realize that your disability will be long term.

Family benefits

If you begin receiving retirement or disability benefits, your family members might also be eligible to receive benefits based on your earnings record. Eligible family members may include:

- Your spouse age 62 or older, if married at least 1 year
- Your former spouse age 62 or older, if you were married at least 10 years
- Your spouse or former spouse at any age, if caring for your child who is under age 16 or disabled
- Your children under age 18, if unmarried
- Your children under age 19, if full-time students (through grade 12) or disabled
- Your children older than 18, if severely disabled

Each family member may receive a benefit that is as much as 50 percent of your benefit. However, the amount that can be paid each month to a family is limited. The total benefit that your family can receive based on your earnings record is about 150 to 180 percent of your full retirement benefit amount. If the total family benefit exceeds this limit, each family member's benefit will be reduced proportionately. Your benefit won't be affected.

Survivor benefits

When you die, your family members may qualify for survivor benefits based on your earnings record. These family members include:

- Your widow(er) or ex-spouse age 60 or older (or age 50 or older if disabled)
- Your widow(er) or ex-spouse at any age, if caring for your child who is under 16 or disabled
- Your children under 18, if unmarried
- Your children under age 19, if full-time students (through grade 12) or disabled
- Your children older than 18, if severely disabled
- Your parents, if they depended on you for at least half of their support

Your widow(er) or children may also receive a one-time $255 death benefit immediately after you die.

Applying for Social Security benefits

The SSA recommends apply for benefits online at the SSA website, but you can also apply by calling (800) 772-1213 or by making an appointment at your local SSA office. The SSA suggests that you apply for benefits three months before you want your benefits to start. If you're applying for disability or survivor benefits, apply as soon as you are eligible.

Depending on the type of Social Security benefits that you are applying for, you will be asked to furnish certain records, such as a birth certificate, W-2 forms, and verification of your Social Security number and citizenship. The documents must be original or certified copies. If any of your family members are applying for benefits, they will be expected to submit similar documentation. The SSA representative will let you know which documents you need and help you get any documents you don't already have.

1) Fast Facts & Figures About Social Security, 2024

Over the past 20 years, average costs for tuition, fees, housing, and food have increased 32% at public colleges and 27% at private colleges over and above general inflation.

College Costs for 2024-2025 March Higher

Every year, the College Board releases new college cost data and trends in its annual report. The figures published are average costs for public in-state, public out-of-state, and private colleges based on a survey of approximately 4,000 colleges across the country.

Over the past 20 years, average costs for tuition, fees, housing, and food has increased 32% at public colleges and 27% at private colleges *over and above* increases in the Consumer Price Index, straining the budgets of many families and leading to widespread student debt.

Here are cost highlights for the 2024–2025 year. ("Total cost of attendance" includes direct billed costs for tuition, fees, housing, and food, plus indirect costs for books, transportation, and personal expenses.)

Public four-year: in-state

- Tuition and fees increased 2.7% to $11,610
- Housing and food increased 4.2% to $13,310
- Total cost of attendance: $29,910

Public four-year: out-of-state

- Tuition and fees increased 3.2% to $30,780
- Housing and food increased 4.2% to $13,310 (same as in-state)
- Total cost of attendance: $49,080

Private four-year

- Tuition and fees increased 3.9% to $43,350
- Housing and food increased 4.1% to $15,250
- Total cost of attendance: $62,990

Sticker price vs. net price

The College Board's cost figures are based on published college sticker prices. But many families don't pay the full sticker price. A net price calculator, available on every college website, can help families see what they might pay beyond a college's sticker price. It can be a very useful tool for students who are currently researching and/or applying to colleges.

A net price calculator provides an estimate of how much grant aid a student might be eligible for at a particular college based on the student's financial information and academic record, giving families an estimate of what their out-of-pocket cost — or net price — will be. The results aren't a guarantee of grant aid, but they are meant to give as accurate a picture as possible.

Federal student loans: interest rates and legal challenges to SAVE Plan

To finance college, many families take out student loans to supplement their savings and income. Federal student loan interest rates for the 2024–2025 school year are the highest they've been in years: 6.53% for undergraduate Direct Loans (up from 5.50% the previous year), 8.08% for graduate Direct Loans (up from 7.05%), and 9.08% for graduate and parent Direct PLUS Loans (up from 8.05%).

Regarding loan repayment, federal student loan repayment resumed in October 2023 for millions of borrowers after almost three-and-a-half years of payment pauses due to the pandemic. Around the same time, the Department of Education launched a generous new income-driven repayment plan called Saving on a Valuable Education, or SAVE. The SAVE Plan included multiple new benefits for borrowers, including monthly payments capped at 5% of discretionary income for undergraduate loans and at 10% of discretionary income for graduate loans.

After the SAVE Plan was launched, it faced multiple legal challenges. In June 2024, two separate federal courts in Kansas and Missouri temporarily blocked key parts of SAVE. In response, the Department of Education placed all borrowers enrolled in SAVE into administrative forbearance, which meant borrowers weren't required to make any payments and interest didn't accrue. Then in August 2024, the U.S. Court of Appeals for the 8th Circuit blocked SAVE in its entirety, saying the injunction would remain in place pending further order of the court or the U.S. Supreme Court. The result is that borrowers enrolled in SAVE will continue to be in limbo while the legal process plays out.

FAFSA delayed until December, again

Typically, the FAFSA (Free Application for Federal Student Aid) opens on October 1 for the upcoming school year. However, for the second year in a row, the FAFSA has been delayed. The 2025–2026 FAFSA will open in December 2024.

Last year, the Department of Education launched a new, shorter FAFSA that contained a number of changes, including:

- A new Student Aid Index (SAI) that replaces the Expected Family Contribution (EFC) terminology
- No reduced parent contribution for parents with multiple children in college at the same time
- No requirement to report cash support and other money paid on a student's behalf on the FAFSA, for example a monetary gift from a relative or a distribution from a grandparent-owned 529 plan

A reminder that the 2025–2026 FAFSA will rely on income information from your 2023 federal tax return (sometimes referred to as the "prior-prior year" or the "base year"). However, the FAFSA will use asset information as of the date you submit the form.

Sources: College Board, *Trends in College Pricing and Student Aid 2024;* U.S. Department of Education, 2024

Don't get tricked. In some states, making one small payment on an expired debt can reset the statute of limitations and bring it back to life.

Zombie Debt: Is It Coming for You?

Zombie debt is old and often expired debt that could be revived after being purchased by a collection agency for pennies on the dollar — or less. These "debt scavengers" have plenty of incentive to cast a wide net and take aggressive steps to collect even a small portion of the original debt.

If you are contacted by a debt collector, it could be for a debt you already repaid or don't owe. For debts written off by creditors long ago, some records might be lost or unreliable. If you don't remember crossing paths with the creditor, it's possible that the debt in question belongs to someone else with a similar name or is the result of identity theft.

One example is a recent wave of zombie second mortgages threatening families with the loss of their homes. After the 2008 housing crash, many homeowners had their mortgages modified and presumed (or were told) that their second loans were forgiven. Now that home prices have risen around the nation, more investors who bought defaulted second mortgages are moving to collect those debts, even if it means foreclosing on the homes.[1]

Unfortunately, this is just one of the ways that zombie debt could come back to haunt you, and depending on the circumstances, you may or may not be responsible for paying it back.

More types of zombie debt

Time-barred debt. You may be contacted about a debt that is beyond the statute of limitations — the length of time during which you can legally be sued by a creditor or debt collector over an unpaid debt. These limits differ based on the type of debt and can vary widely by state, though they generally range from three to 10 years. When a debt is "time-barred," a debt collector may still try to convince you to repay it voluntarily.

Discharged debt. This refers to debt that has been legitimately wiped out through a bankruptcy case.

Settled debt. A lower payoff on non-secured debt (such as medical or credit-card debt) might have been negotiated with the creditor in exchange for forgiveness of the remaining balance.

Beware of scare tactics

Debt collectors are not allowed to use abusive language, constant harassment, or deception to intimidate you into repaying a debt that is beyond the statute of limitations or is not actually yours — but it's been known to happen. They might threaten to sue, even if it's illegal to do so, then offer to leave you alone if you make a partial payment.

Don't get tricked. In some states, making one small payment on an expired debt can reset the statute of limitations and bring it back to life. The collector could then legally pursue the entire amount. Repaying part of a debt that was never yours could be interpreted as admitting it does belong to you.

Tips for fighting off debt scavengers

How should you respond if you are contacted about a zombie debt? Don't panic, and don't immediately make a payment or provide any personal information. On the other hand, it might not be wise to assume it's a scam and ignore calls or letters from a collection agency.

Start by asking for a debt validation letter, which should include information about the original creditor, the amount of the debt, and when it was incurred. Don't say anything to a debt collector until you have a chance to research the details, verify the debt is really yours, and determine whether it falls within the statute of limitations.

If you confirm that the debt is a mistake, has already been paid, or is expired, send a letter disputing the debt within 30 days (and keep a copy for your records). If it shows up as a delinquency on your credit report, you can also file a dispute with the credit agency. You are entitled to a free copy of your credit report weekly from each of the three nationwide credit agencies: Experian, TransUnion, and Equifax. Visit www.annualcreditreport.com for more information.

Sometimes a zombie debt results from a long-forgotten charge and/or a bill left behind unknowingly when moving from one place to another. If you discover that you do owe the debt and have the money, resolving the unpaid account could help protect your credit. If you can't pay the entire amount right away, you may be able to negotiate a payment agreement.

Receiving a collection notice for a home mortgage could be a more serious and costly threat. If you are contacted by an unfamiliar lender demanding money for a second mortgage, check the title report for any encumbrances or liens attached to your property. If you find one, consider consulting an attorney to help negotiate with the lienholder or challenge the debt in court, depending on your personal situation.

1) NPR.com, May 18, 2024

Choosing an Entity for Your Business

Now that you've decided to start a new business or buy an existing one, you need to consider the form of business entity that's right for you. Basically, three separate categories of entities exist: partnerships, corporations, and limited liability companies. Each category has its own advantages, disadvantages, and special rules. It's also possible to operate your business as a sole proprietorship without organizing as a separate business entity.

Sole proprietorship

A sole proprietorship is the most straightforward way to structure your business entity. Sole proprietorships are easy to set up — no separate entity must be formed. A sole proprietor's business is simply an extension of the sole proprietor.

Sole proprietors are liable for all business debts and other obligations the business might incur. This means that your personal assets (e.g., your family's home) can be subject to the claims of your business's creditors.

For federal income tax purposes, all business income, gains, deductions, or losses are reported on Schedule C of your Form 1040. A sole proprietorship is not subject to corporate income tax. However, some expenses that might be deductible by a corporate business may not be deductible by a business structured as a sole proprietorship.

Partnerships

If two or more people are the owners of a business, then a partnership is a viable option to consider. Partnerships are organized in accordance with state statutes. However, certain arrangements, like joint ventures, may be treated as partnerships for federal income tax purposes, even if they do not comply with state law requirements for a partnership.

A partnership may not be the best choice of entity for a business that anticipates an initial public offering (IPO) in the near future. Although there are publicly traded partnerships, most IPO candidates are organized as corporations.

In a partnership, two or more people form a business for mutual profit. In a general partnership, all partners have the capacity to act on behalf of one another in furtherance of business objectives. This also means that each partner is personally liable for any acts of the others, and all partners are personally responsible for the debts and liabilities of the business.

It is not necessary that each partner contribute equally or that all partners share equally. The partnership agreement controls how profits are to be divided. It is not uncommon for one partner to contribute a majority of the capital while another contributes the business acumen or contacts, and the two share the profits equally.

Partnerships are a recognized entity in the sense that the entity can obtain credit, file for bankruptcy, transfer property, and so on. However, the partnership itself is generally not subject to federal income taxes (it does, however, file a federal income tax return).

Instead, the income, gains, deductions, and losses of the partnership are generally reported on the partners' individual federal income tax returns. The allocation of these items among the partners is governed by the partnership agreement, subject to certain limitations.

Limited partnerships

A limited partnership differs from a general partnership in that a limited partnership has more than one class of partners. A limited partnership must have at least one general partner (who is usually the managing partner), but it also has one or more limited partner. The limited partner(s) does not participate in the day-to-day running of the business and has no personal liability beyond the amount of his or her agreed cash or other capital investment in the partnership.

Limited liability partnership

Some states have enacted statutes that provide for a limited liability partnership (LLP). An LLP is a general partnership that provides individual partners protection against personal liability for certain partnership obligations. Exactly what is shielded from personal liability depends on state law. Since state laws on LLPs vary, make sure you consult competent legal counsel to understand the ramifications in your jurisdiction.

Corporations

Corporations offer some advantages over sole proprietorships and partnerships, along with several important drawbacks. The two greatest advantages of incorporating are that corporations provide the greatest shield from individual liability and are the easiest type of entity to use to raise capital and to transfer (the majority stockholder can usually sell his or her stock without restrictions).

A corporation can be taxed as either a C corporation or an S corporation. Each has its own advantages and disadvantages.

C corporations

A corporation that has not elected to be treated as an S corporation for federal income tax purposes is typically known as a C corporation. Traditionally, most incorporated businesses have been C corporations. C corporations are not subject to the same qualification rules as S corporations and thus typically offer more flexibility in terms of stock ownership and equity structure. Another advantage that a C corporation has over an S corporation is that a C corporation can fully deduct most reasonable employee benefit costs, while an S corporation may not be able to deduct the full cost of certain benefits provided to 2% shareholders. Virtually all large corporations are C corporations.

However, C corporations are subject to income tax. So, the distributed earnings of your incorporated business may be subject to corporate income tax as well as individual income tax.

S corporations

A corporation must satisfy several requirements to be eligible for treatment as an S corporation for federal income tax purposes. However, qualification as an S corporation offers a potential tax benefit unavailable to a C corporation. If a qualifying corporation elects to be treated as an S corporation for federal income tax purposes, then the income, gains, deductions, and losses of the corporation are generally passed through to the shareholders. Thus, shareholders report the S corporation's income, gains, deductions, and losses on their individual federal income tax returns, eliminating the potential for double taxation of corporate earnings in most circumstances.

However, many employee benefit deductions are not available for benefits provided to 2% shareholders of an S corporation. For example, an S corporation can provide a cafeteria plan to its employees, but the 2% shareholders cannot participate and receive the tax advantages that such a plan provides.

It is important to note that S corporation treatment is not available to all corporations. It is available only to qualifying corporations that file an election with the IRS. Qualifying corporations must satisfy several requirements, including limitations on the number and type of shareholders and on who can own stock in the corporation.

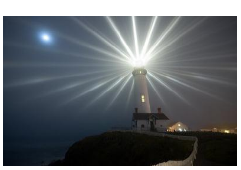
Limited liability company

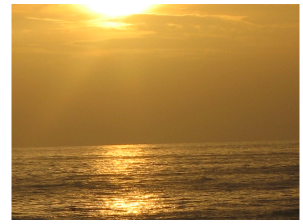
A limited liability company (LLC) is a type of entity that provides limitation of liability for owners, like a corporation. However, state law generally provides much more flexibility in the structuring and governance of an LLC as opposed to a corporation. In addition, most LLCs are treated as partnerships for federal income tax purposes, thus providing LLC members with pass-through tax treatment. Moreover, LLCs are not subject to the same qualification requirements that apply to S corporations. However, it should be noted that a corporation may be a better choice of entity than an LLC if an IPO is anticipated.

Choosing the best form of ownership

There is no single best form of ownership for a business. That's partly because you can often compensate for the limitations of a particular form of ownership. For instance, a sole proprietor can often buy insurance coverage to reduce liability exposure, rather than form a limited liability entity.

Even after you have established your business as a particular entity, you may need to re-evaluate your choice of entity as the business evolves. An experienced attorney and tax advisor can help you decide which form of ownership is best for your business.





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