



# Alliance Benefit Consultants

## For All Your Insurance Needs

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## Have You Reviewed Your Beneficiary Designations Lately?

Assets in most bank and brokerage accounts, retirement plans, and insurance policies convey directly to the people named on the beneficiary forms — even if they are different from the people named in a will or trust — and the money does not go through probate. Unfortunately, many people procrastinate or simply forget to make the appropriate changes in writing as their family situations change over time.

For example, someone who is divorced may want to leave retirement plan assets to his or her children. But an ex-spouse could legally receive the money if updated beneficiary forms are never filed, even if a will and a divorce decree state otherwise.

If your beneficiary designations are out-of-date and your intentions become a matter of dispute, state and/or federal laws or the administrator's plan documents could ultimately determine who receives your assets.

### Key considerations

A simple form filed with a financial institution or insurance company could turn out to be one of your most crucial estate planning documents. But life is famously unpredictable, which is why designating beneficiaries for your accounts is not a set-and-forget task.

- **Review your beneficiary designations annually to be sure they are still correct and complete.** Inform your financial

Consider the potential tax consequences for account beneficiaries when deciding how to divide assets among your heirs.



professional when there are changes in your life that could affect your choices, such as the birth of a child, the illness or death of a beneficiary, marriage, divorce, and especially remarriage. Request an acknowledged copy of new or updated beneficiary forms and store them with your other important financial documents.

- **Be aware that your spouse must be the beneficiary of an employer-sponsored retirement plan unless he or she signs a waiver allowing you to designate someone else.** This could be especially important if you want to leave assets to children from a previous marriage.
- **Designate secondary (contingent) beneficiaries in case a primary beneficiary predeceases you.** A typical approach would be to leave the assets to your spouse, with your children as contingent beneficiaries. Alternatively, you might leave your estate in equal shares to your

*(Continued on page 4)*

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*If you have any questions about the topics in this newsletter or about your financial future, call us. We are available to help.*

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# Catch Up for a More Comfortable Retirement

A 2024 survey found that only a third of U.S. workers age 50 and older feel that their savings contributions have them on track to enjoy a comfortable retirement.<sup>1</sup> If your retirement account balance is lagging — or even if your nest egg seems robust — you can give your savings a boost by taking advantage of catch-up contributions that are available to those age 50 or older. This is often a time when salaries are highest, and you may thank yourself later if you put your current income to work for the future.

This opportunity is available for IRAs and employer-sponsored retirement plans — and there is a new opportunity in 2025 for some workers to make even bigger contributions to employer plans. You might be surprised by how much your savings could grow late in your working career.

## Employer plans

Employer plans offer the most generous tax-advantaged contribution limits, and employers often match employee contributions up to a certain percentage of salary. Employer plan contributions for a given tax year must be made by December 31 of that year, but employers will generally allow you to adjust your contributions during the year.

For 2025, the individual contribution limit for 401(k), 403(b), and government 457(b) plans is \$23,500, with an additional \$7,500 catch-up contribution for those age 50 and older, for a total of \$31,000. However, beginning in 2025, workers age 60 to 63 can make a larger catch-up contribution of \$11,250 for a total of \$34,750. Like all catch-up contributions, the age limit for this “super catch-up” is based on age at the end of the calendar year. It is not prorated, so you are eligible to make the full \$11,250 contribution if you are age 60 to 63 at any time during 2025 and do not turn 64 by the end of the year.

SIMPLE retirement plans have lower but still generous limits: \$16,500 in 2025 plus an additional \$3,500 catch-up contribution for employees age 50 and older or an additional \$5,250 for

employees age 60 to 63. (Some plans have higher standard and age-50 catch-up limits: \$17,600 and \$3,850, along with the \$5,250 super catch-up.)

## IRAs

Unlike contributions to employer plans, IRA contributions can be made for the previous year up to the April tax filing deadline. So you can make contributions for 2024 up to April 15, 2025, and contributions for 2025 up to April 15, 2026. Make sure your IRA administrator knows which year the contributions are for.

The federal contribution limit in 2024 and 2025 for all IRAs combined is \$7,000, plus a \$1,000 catch-up contribution for those 50 and older — for a total of \$8,000 each year. An extra \$1,000 might not seem like much, but it could make a big difference by the time you’re ready to retire. If only one spouse is working, a married couple filing a joint return can contribute to an IRA for each spouse as long as the working spouse has earned income that is at least equivalent to both contributions.

## IRA MAGI limits

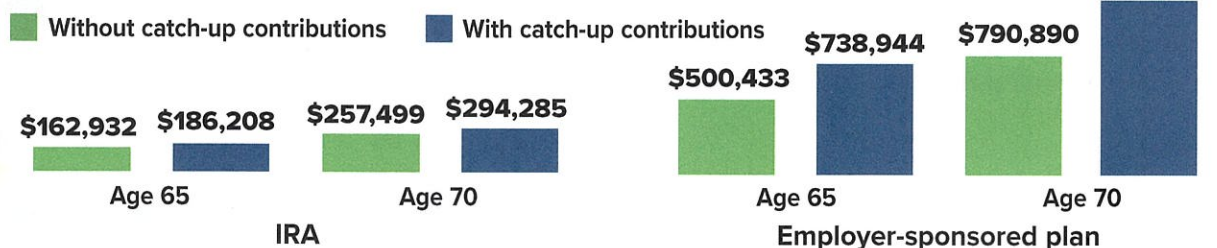
IRA contributions up to the combined limit can be traditional, Roth, or both. If an individual is an active participant in an employer-sponsored retirement plan, the ability to deduct traditional IRA contributions phases out in 2025 at a modified adjusted gross income (MAGI) of \$79,000–\$89,000 for single filers or \$126,000–\$146,000 for joint filers (\$77,000–\$87,000 and \$123,000–\$143,000 in 2024). If one spouse is an active participant in an employer-sponsored plan and the other is not, deductions for the nonparticipant phase out from \$236,000–\$246,000 in 2025 (\$230,000–\$240,000 in 2024).

The ability to contribute to a Roth IRA phases out in 2025 at a MAGI of \$150,000–\$165,000 for single filers and \$236,000–\$246,000 for joint filers (\$146,000–\$161,000 and \$230,000–\$240,000 in 2024).

1) AARP Financial Security Trends Survey, 2024

## Savings Boost

Additional amounts that might be accrued between age 50 and age 65 or 70, based on making maximum annual contributions at current limits to an IRA or an employer-sponsored plan (includes additional catch-up for ages 60 to 63)



Assumes a 6% average annual return. If annual inflation adjustments to maximum contribution amounts were included, actual totals could be higher.

This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent any specific investment. It assumes contributions are made at end of the calendar year. Rates of return vary over time, particularly for long-term investments. Fees and expenses are not considered and would reduce the performance shown if they were included. Actual results will vary.



# The Versatile Roth IRA

Used with care, the Roth IRA may help serve several objectives at once — like a multipurpose tool in your financial-planning toolbox.

## Retirement

First and foremost, a Roth IRA is designed to provide tax-free income in retirement. If your modified adjusted gross income (MAGI) falls within certain limits, you can contribute up to \$7,000 (\$8,000 for those age 50 or older) in earned income to a Roth IRA in 2024 and 2025. Although Roth IRA contributions are not tax-deductible, qualified withdrawals are tax-free.

A qualified withdrawal is one made after the account has been held for at least five years and the account owner reaches age 59½, becomes disabled, or dies. Nonqualified withdrawals of earnings are subject to ordinary income taxes and a 10% penalty, unless an exception applies.

## Emergency savings

Because contributions to a Roth IRA are made on an after-tax basis, they can be withdrawn at any time — which means, in a money crunch, you could withdraw just your Roth contributions (not the earnings) free of taxes and penalties. In addition, account holders may withdraw up to \$1,000 in earnings each year to cover emergency expenses.<sup>1</sup>

## Teachable moments

A Roth IRA can also be an ideal way to introduce a working teen to long-term investing. Minors can contribute to a Roth IRA as long as they have earned income and a parent or other adult opens a custodial account in their name. Alternatively, an adult can contribute to a Roth IRA within a custodial account on a child's behalf, as long as the total amount doesn't exceed the child's total wages for the year.

## College and a first home

Roth IRA earnings can be withdrawn penalty-free to provide funds for college and the purchase of a first home.

## 2025 Income Limits for Roth Contributions



Filing status	Contribution limited if MAGI is:	No contribution allowed if MAGI is:
Single/Head of household	\$150,000 to \$164,999	\$165,000 or more
Married filing jointly	\$236,000 to \$245,999	\$246,000 or more
Married filing separately	\$0 to \$9,999	\$10,000 or more

Source: IRS

**College.** Roth IRA funds can help pay for certain undergraduate and graduate costs for yourself or a qualified family member. Expenses include tuition, housing and food (if the student attends at least half time), fees, books, supplies, and required equipment not covered by other tax-free sources, such as scholarships or employer education benefits. An advantage of using a Roth IRA to help pay for college is that assets held in retirement accounts are excluded from the government's financial-aid formula. (A related point: up to \$35,000 in 529 plan assets that are not used to pay for college may be rolled over to a Roth IRA for the same beneficiary, provided certain rules are followed.)

**First home purchase.** Up to \$10,000 (lifetime limit) can be used for qualified expenses associated with a first-time home purchase. You are considered a first-time home buyer if you haven't owned or had interest in a home during the previous two years. Funds may be used for acquisition, construction, or reconstruction of a principal residence and must be used within 120 days of the distribution. If the account has been held for at least five years, the distribution will be income tax-free as well.

## Estate planning

Roth IRAs are not subject to the age-based required minimum distribution rules that apply to non-Roth retirement accounts during your lifetime. For this

reason, if you don't need your Roth IRA funds, they can continue to accumulate. After your death, the tax-free income benefit continues to apply to your beneficiaries (however, the value of your Roth IRA will be assessed for federal and possibly state estate tax purposes).

## Proceed with caution

Although it's generally best to avoid tapping money earmarked for retirement early, the Roth IRA can help serve multiple needs — if used wisely.

*The tax implications of a 529 savings plan should be discussed with your legal and/or tax professional because they can vary from state to state. Also be aware that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers. These other state benefits may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, can be obtained by contacting your financial professional. You should read these materials carefully before investing.*

1) Due to ordering rules, Roth IRA contributions will always be distributed before earnings.

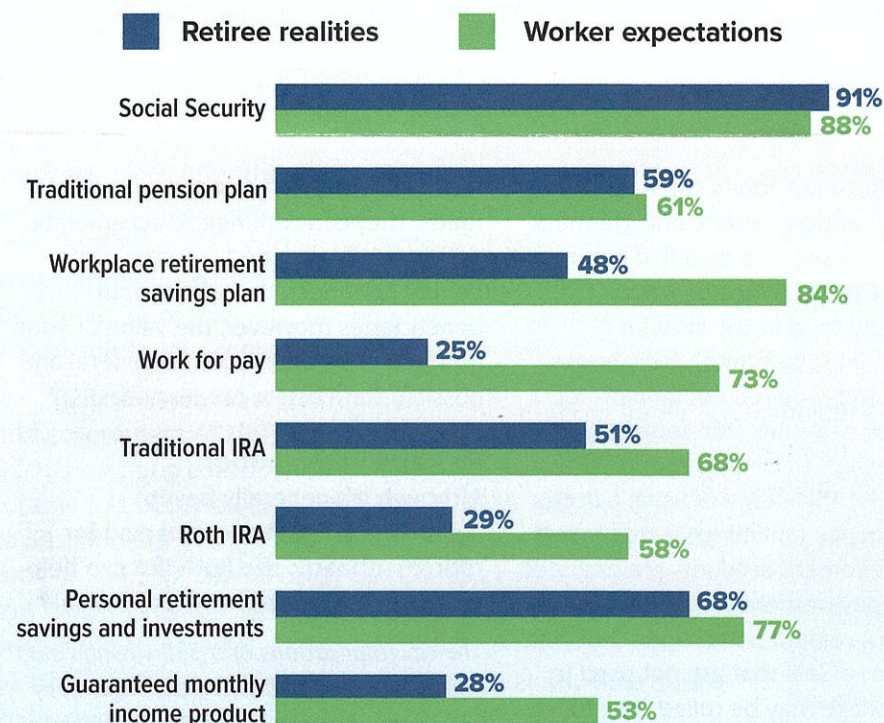




## Sources of Retirement Income: Worker Expectations vs. Retiree Realities

About 90% of retirees say they rely on Social Security, approximately the same as the percentage of workers who expect Social Security to help them meet their retirement income needs. Similarly, about 60% of workers expect a traditional pension plan to provide income, which is only slightly higher than the percentage of retirees who say a pension helps pay their bills. In other cases, worker expectations differ dramatically from retiree realities.

### Worker expectations for retirement income vs. retirees' actual experience



Source: Employee Benefit Research Institute, 2024

# 42%

Percentage of working retirees who cite "needing to make ends meet" as one reason for earning a paycheck

Source: Employee Benefit Research Institute, 2024



**Ed Slott** is a professional speaker and the creator of several public television specials, including "Retire Safe & Secure! with Ed Slott." He is the author of *The Retirement Savings Time Bomb...And How to Defuse It* and many other books about IRA planning.

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(Continued from page 1)

children, with grandchildren as contingent beneficiaries. Moreover, you may be asked use one of two Latin terms to help clarify your designations. For example, if you name your children as beneficiaries *per capita*, your assets would be divided equally among your surviving children — but any children of a deceased child would receive nothing. If your beneficiaries are specified as *per stirpes*, the share of any deceased beneficiary would be divided proportionately among his or her heirs upon your death.

- **Consider the potential tax consequences for account beneficiaries when deciding how to divide assets among your heirs.** If pre-tax assets held in traditional retirement accounts are left to individuals in lower tax brackets (and/or who live in low-tax states), they may be able to keep more of the money after paying less tax on future distributions. On the other hand, tax-free assets (such as Roth accounts or life insurance proceeds) could go to heirs who are likely to face high tax rates.
- **Bear in mind that some financial institutions may not pay death benefits to minors.** If you want to leave money to young children (as primary or contingent beneficiaries), you should consider arranging for a guardian or trustee to control the assets until the beneficiary is old enough to manage them.

*The use of trusts involves complex tax rules and regulations, as well as costs to create and maintain them. Consider the counsel of an experienced estate planning professional before implementing such strategies.*