Post-Election Update

Becky Ruby Swansburg | CEO, Stonewood Financial

Our nation is facing some big changes in Washington, with a new Administration in the White House and new leadership on Capitol Hill in both the House and the Senate.

These changes could have both near-term and long-term impacts for American savers, particularly around U.S. tax policy. These changes could be especially acute for savers who have saved in IRAs, 401(k)s, and other tax-deferred vehicles[1]. Since taxes on these funds are due when the funds are accessed in the future during retirement, any changes to tax policy today could potentially impact the amount of income a saver can spend (and the amount going to the IRS as taxes).

Key Issues to Watch in Washington

Chief among the questions facing the new Administration and Congressional Leadership:

- Will the Tax Cuts and Jobs Act (i.e., the "Trump Tax Cuts") get extended?
- Will new taxes be imposed on retirement and savings accounts?
- Will reforms impact Social Security?
- Will there be an overall change in government spending?

Potential Impacts of the New Administration & Congress

With President Trump winning a second term, and Republicans controlling (with narrow majorities) the Senate and House, it is possible key Trump priorities can more efficiently move through Congress and be signed into law. 2025 will likely be a busy year for legislation on Capitol Hill.

Some of these priorities may include:

Extending the 2017 Tax Cuts & Jobs Act ("Trump Tax Cuts") | The Trump Tax Cuts are set to expire next year, which means without Congressional action, tax brackets and estate tax exemptions will revert back to their older, higher rates in 2026. President-elect Trump has repeatedly said throughout the campaign that extending these tax cuts is a top priority[2]. While his official campaign stance has been to make the tax cuts permanent (excluding the SALT cap), it is more likely that Congress will debate an extension of the tax cuts, allowing them to sunset at some point in the future. As the year progresses, I'll be keeping a close eye on how strongly President Trump is pushing for a tax extension package.

If Congress plans to pass one, it will need to be an early priority, as the goal is to pass the legislation in 2025 before the existing package expires.

Attitudes Toward Retirement Savings | Over the past four years of the Biden administration, we have seen the retirement accounts of wealthier Americans come under attack. This included proposals outlining new ways to tax-qualified accounts when account balances reach high levels and limitations on Roth conversions for certain Americans[3]. With Trump's victory, we will likely get a reprieve from this type of legislation. However, many in Washington would still like to see additional revenue generated from the retirement accounts of wealthier savers, so it's an issue we'll need to keep a close eye on as we head into future election cycles.

Social Security | Neither candidate made Social Security reform a central component of their campaign, despite the fact that without changes, the Social Security Trust Fund will no longer be able to pay out full benefits starting in 2034[4]. President-elect Trump has proposed eliminating income taxation of Social Security benefits, which currently generates around $51 billion in revenue[5]. It's unclear at this point if this proposal will gain traction on Capitol Hill, but it is certainly worth watching as the new administration lays out its priorities.

Government Spending | Our national debt is nearly $36 trillion and growing[6]. President-elect Trump has said he will offset the cost of extending the Trump Tax Cuts with new tariffs, but it is not clear if that proposal will have legs in Congress. A full extension of the Trump Tax Cuts would add around $3 trillion over 10 years in deficit spending[7]. While it's yet to be seen if the new administration and Congressional leaders focus on reducing the deficit in earnest, many of Trump's policy proposals are primarily focused on stimulating the economy, not directly reducing the federal debt. And it may not matter in the long run anyway - more on that topic below.

Potential Long-Term Impact of the 2024 Election for U.S. Savers

Keep in mind there are two distinct ways we can evaluate the new leadership in Washington:

- Near-term impact, or what specific legislation the next Congress and President might pass that could impact U.S. savers, IRAs and 401(k)s, estate taxes, and more.
- Long-term impact, or what the priorities of the incoming administration mean for America's economic, tax, and debt environment in the decades to come.

It's important to evaluate what will happen over the next four years and help savers prepare. However, most of us don't plan to live in retirement only for the next four years. Because retirement is a long-term endeavor, the long-term impact of this election is critical to evaluate and address.

The Congressional Budget Office (CBO) projects that over the next decade, the annual budget deficit will range from $1.7 trillion to $2.9 trillion[8]. That makes one thing very clear: Americans are underpaying for the government we currently have.

Today and into the decade ahead, U.S. revenue will not support the level of government Americans are scheduled to receive. And while certainly, our government could reduce spending in numerous places, the problem runs much deeper than any new bills the President and Congress may pass.

In the last fiscal year, our country brought in $4.4 trillion in revenue and spent $4.4 trillion on mandatory (non-Congressional) spending alone - programs like Social Security and Medicare[9]. That means every dollar Congress appropriated (for things like defense and transportation funding) was deficit spending.

This is not sustainable. In fact, it will likely get worse as our population ages and puts increased pressure on the Social Security and Medicare programs. At some point - sooner rather than later - the government will need more revenue. And that means more taxes.

We are likely entering an era of rising taxes on American savers. At this point, it's more of a demographic problem than simply a political one. And that means while control of the White House can slow or accelerate the growth of our federal debt, it's unlikely a single administration can solve the problem.

Preparing for What Could Come Next

In my opinion, higher taxes are coming. And while I don't know the exact timing of when they'll go up, I do know the timing of when savers might need to prepare:

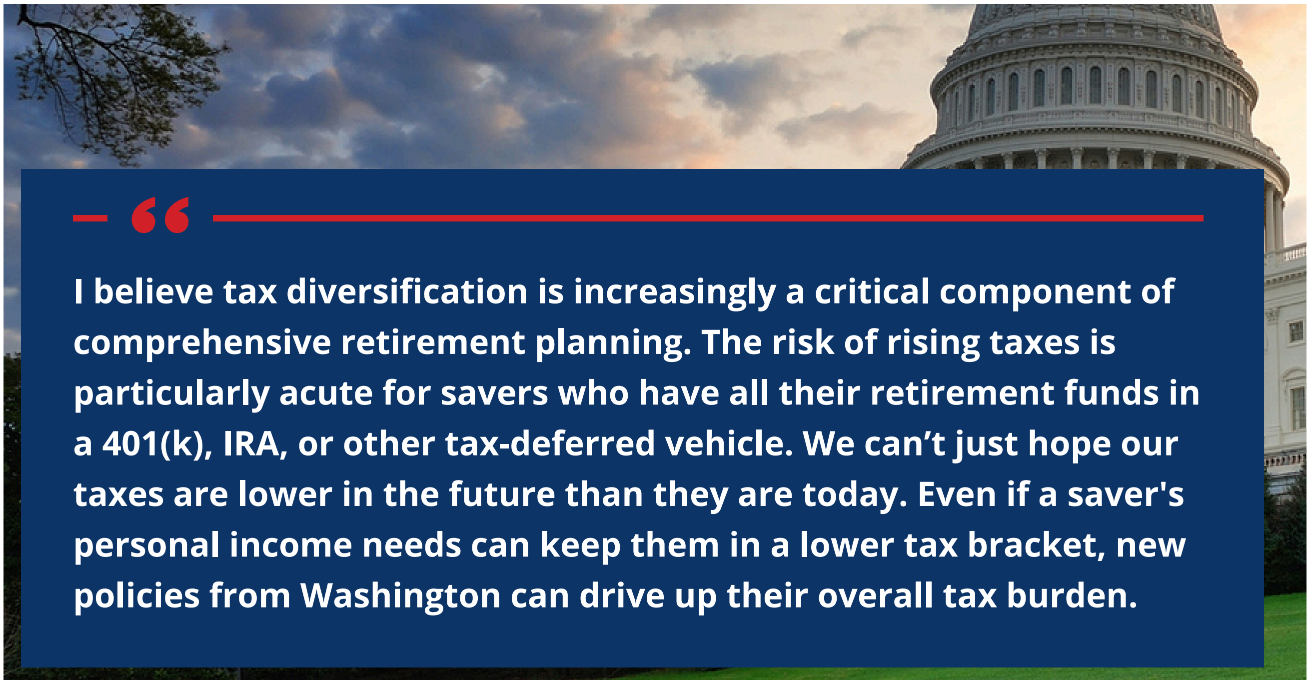
That time is now.

Because President-elect Trump has already served one term as President, this will be his last term in the White House. Regardless of what his administration accomplishes, in four years we will be electing a new leader. The 2024 election did not solve the problems we face as a divided nation; in fact, it likely created fiercer battlegrounds going into the 2026 midterm elections.

What does all this mean?

We shouldn't just prepare for the Trump administration over the next four years. We also need to implement strategies that help us avoid having to worry about our retirement assets and approach every four years. Many of us are making retirement decisions in the midst of a politically volatile cycle. And while we avoided a new administration that has been openly hostile toward higher-income savers, we do not know what 2028 and beyond will bring.

In essence, U.S. savers have been given a gift - but it's a gift with an expiration date.



> **I believe tax diversification is increasingly a critical component of comprehensive retirement planning. The risk of rising taxes is particularly acute for savers who have all their retirement funds in a 401(k), IRA, or other tax-deferred vehicle. We can't just hope our taxes are lower in the future than they are today. Even if a saver's personal income needs can keep them in a lower tax bracket, new policies from Washington can drive up their overall tax burden.**

I believe it will be critical for certain savers to take advantage of the next year (and, if the Trump Tax Cuts are extended, the next several years) to evaluate their potential retirement tax bills and make adjustments where necessary. For savers considering converting qualified funds into tax-free funds[1], today's artificially-low tax bracket rates can make the conversion less expensive than it will likely be in the future.

In my opinion, 2025 is shaping up to be the year of the Roth conversion[10]. Savers may want to understand not just if conversion makes sense in their situation but how to convert funds while also minimizing the potential impact to tax drift and government IRMAA[11] fees.

While we may see individual income tax bracket rates stay at their lower rates for a bit longer, I believe savers can leverage this time to plan for what comes next: the potential for higher taxes and more legislative volatility in Washington. With the right financial guidance, savers can feel greater confidence that their retirement approach is better protected from changes in Washington.

BECKY RUBY SWANSBURG

Becky Ruby Swansburg is CEO of Stonewood Financial, a noted public speaker, and co-author of several industry-leading books including *The New Holistic Retirement.* She has built a career in communication and policy, working in the White House under George W. Bush, and on Capitol Hill for the Speaker of the House and other Members of Congress.

DISCLOSURE

This memo represents the author's opinion only. It is not endorsed by any government department or program. This memo is not intended to provide tax, legal or investment advice. Please consult qualified professionals about your individual situation and needs.

1 This memo is not intended to be a complete discussion of any qualified or tax-free account or approach, and does not consider every feature and limitation of tax-deferred accounts or Roth accounts.

2 "Tracking 2024 Presidential Tax Plans," The Tax Foundation, Accessed 11/06/24 and available at taxfoundation.org/research/federal-tax/2024-tax-plans

3 "Fact Sheet: The President's Budget Proposal for 2025," The White House, Published 03/11/24 and available at whitehouse.gov/briefing-room/statements-releases/2024/03/11/fact-sheet-the-presidents-budget-for-fiscal-year-2025

4 "2024 Long-Term Projections for Social Security," Congressional Budget Office, Accessed 11/06/24 and available at cbo.gov/publication/60679

5 "Actuarial Status of the Social Security Trust Fund," U.S. Social Security Administration, Published 05/2024 and available at ssa.gov/policy/trust-funds-summary.html

6 "What is the National Debt?" U.S. Treasury Fiscal Data Center, Accessed 11/06/24 and available at fiscaldata.treasury.gov/americas-finance-guide/national-debt/

7 "Donald Trump Tax Plan Ideas: Details and Analysis," Tax Foundation, Published 10/14/24 and available at taxfoundation.org/research/all/federal/donald-trump-tax-plan-2024

8 "Budget and Economic Data," Congressional Budget Office, Accessed 11/06/24 and available online at cbo.gov/data/budget-economic-data

9 "The Federal Budget in Fiscal Year 2023," Congressional Budget Office, Accessed 11/06/24 and available at cbo.gov/publication/59727

10 During a potential Roth Conversion, there may be additional taxes paid during the conversion years if in the process of converting funds, a portion of a saver's income is pushed into a higher tax bracket. This is sometimes called "Tax Drift" and measures additional taxes potentially paid beyond the regular income tax amount paid on converted funds at current bracket rates. In short, this measures the potential additional tax impact of the portion of income pushed into the higher bracket.

11 This is not a complete list of features and requirements for IRMAA. Fees can vary based on income and personal situation. Complete information on IRMAA requirements, IRMAA fee tables and potential IRMAA adjustments can be found on the Medicare website, available online at www.medicare.gov/basics/costs.