Nicholson Financial Services

Did You Know...?

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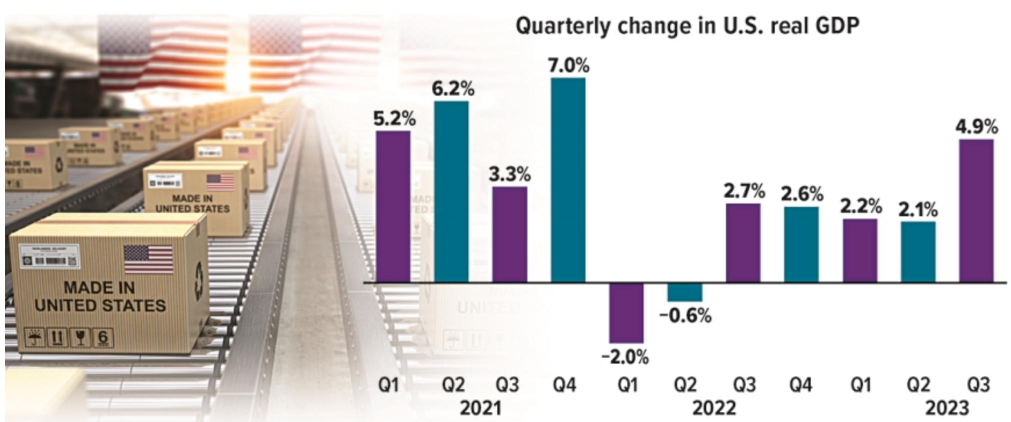
Another year where I have had no time to write my year end newsletter! I know it is late, but it is still winter! The economy & markets turned around significantly in 2023 after a rough 2022. It was great to see the economy continue to normalize after 3 years of disruption due to Covid 19. As I mention in my article "That Didn't Go As Expected," I recommend that you take a look at Capital Group's 2024 Outlook on my website (Education & Resources > Third Party Insights). They do an excellent job laying our their opinions of what is to come in 2024. Considering they manage over $2.6 trillion, I value their opinion. I also highly recommend checking out the "Market Information" section of my site. There you will find the Weekly Headings Snapshot, Weekly Investment Strategy, Weekly Market Commentary & Investment Strategy Quarterly. All of them provide insight from the professionals at Raymond James and are updated regularly. As always, contact me with any questions or concerns.

Economy Staying Strong

After a worrisome decline in the first half of 2022 — which sparked fears of a recession — U.S. inflation-adjusted gross domestic product (real GDP) has grown steadily. The third quarter of 2023 showed the strongest growth since the post-pandemic bounceback.

Current-dollar (nominal) GDP measures the total market value of goods and services produced in the United States at current prices. By adjusting for inflation, real GDP provides a more accurate comparison over time, making its rate of change a preferred indicator of the nation's economic health.



Source: U.S. Bureau of Economic Analysis, 2023 (seasonally adjusted at annual rates; Q3 2023 based on advance estimate)

That Did Not Go As Expected

If you go back to early 2023, it didn't matter what news source you listened to, or which economist or market strategist it was, they all shared the same opinion. It wasn't a question of "IF" there would be a recession, the question was: "when will it start and how bad will it be?" Needless to say, that did not go as expected. The economy continued to strengthen throughout the year and GDP growth outperformed expectations in all four quarters. The US avoided a recession in the traditional sense, but that doesn't mean it did not happen. Several economists and strategists that I follow believe we have had a series of mini-recessions and recoveries, known as a "rolling recession."

My friends at Capital Group (parent company of American Funds) put together a great piece titled "Outlook." The 2024 version is available on my website (go to "Education & Resources" > "Third Party Insights") and I highly recommend giving it a read. On page 4 they address this issue and pose the question; "Why didn't the U.S. fall into recession in 2023, as so many pundits predicted? The recession did happen, just not all at once. Over the past year and a half, different economic sectors experienced downturns at different times - a phenomenon economists call a "rolling recession." To summarize, the fact that those mini recessions did not happen all at once made it less likely they were noticed by the average person. People could tell there were issues in the economy, but most would likely stop short of calling it a recession.

It is also now very apparent that much of the inflation we dealt with in 2022 was related to Covid era supply chain problems. If there are 10 widgets for sale, but 100 people want to buy them, those who can *afford* to will pay more to make sure they get that thing they want or need. That is simple supply and demand economics that we saw on a scale that was unprecedented. It impacted nearly every industry and almost every product we buy. As the supply chain problems have improved, inflation has dissipated. Removing that albatross from the neck of the economy is part of the reason why growth surprised to the upside in 2023.

Looking at the rest of 2024, things can change but so far the markets and the economy continue to look positive. Referencing Capital Group's Outlook again, they expect solid earnings growth across major markets this year (page 5). They also believe that a capital spending boom could spark a manufacturing revival (page 9). "Seeking to support local supply chains, expand clean energy and boost the U.S. semiconductor industry, the U.S. government has committed $1.4 trillion over the next seven years for capital projects. This investment translates into revenue and earnings growth potential for companies with the capacity and flexibility to undertake these expansive projects, including upgrading the U.S. power grid and building manufacturing facilities." Translation: such investment creates economic growth.

The two buzz words that caught attention in 2023 that I believe may have a significant impact in 2024: artificial intelligence (AI). I believe AI will be a transformative technology much like many of the new technologies we saw from 1995 to 2000. During that period, the way business was done changed forever. The Internet, email, teleconferencing (Zoom, Webex, Etc.) as well as many other new technologies changed how business was done worldwide. Employees of companies could collaborate more efficiently from wherever they were in the world. That increase in efficiency created a boom in productivity that was unprecedented until that time (increasing profits without raising prices for the end consumer).

That is where I believe AI will have its greatest impact: enhancing productivity. It is possible that AI could create another wave of productivity enhancement like the explosion of the Internet in the mid to late 1990's. There are going to be risks associated with AI, but significant opportunities as well.

Key Retirement and Tax Numbers for 2024

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2024.

Estate, gift, and generation-skipping transfer tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2024 is $18,000, up from $17,000 in 2023.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2024 is $13,610,000, up from $12,920,000 in 2023.

Standard deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2024, the standard deduction is:

- $14,600 (up from $13,850 in 2023) for single filers or married individuals filing separate returns
- $29,200 (up from $27,700 in 2023) for married joint filers
- $21,900 (up from $20,800 in 2023) for heads of households

The additional standard deduction amount for the blind and those age 65 or older in 2024 is:

- $1,950 (up from $1,850 in 2023) for single filers and heads of households
- $1,550 (up from $1,500 in 2023) for all other filing statuses

Special rules apply for an individual who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $7,000 in 2024 (up from $6,500 in 2023), with individuals age 50 or older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges *(see table).* For individuals who are active participants in an employer-sponsored retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges *(see table).* The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to a Roth IRA

	2023	2024
Single/Head of household	$138,000–$153,000	$146,000–$161,000
Married filing jointly	$218,000–$228,000	$230,000–$240,000
Married filing separately	$0–$10,000	$0–$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2023	2024
Single/Head of household	$73,000–$83,000	$77,000–$87,000
Married filing jointly	$116,000–$136,000	$123,000–$143,000

Note: The 2024 phaseout range is $230,000–$240,000 (up from $218,000–$228,000 in 2023) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0–$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.

Employer-sponsored retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $23,000 in compensation in 2024 (up from $22,500 in 2023); employees age 50 or older can defer up to an additional $7,500 in 2024 (the same as in 2023).
- Employees participating in a SIMPLE retirement plan can defer up to $16,000 in 2024 (up from $15,500 in 2023), and employees age 50 or older can defer up to an additional $3,500 in 2024 (the same as in 2023).

Kiddie tax: child's unearned income

Under the kiddie tax, a child's unearned income above $2,600 in 2024 (up from $2,500 in 2023) is taxed using the parents' tax rates.

Don't Forget About Credit When Planning for Retirement

As you plan for retirement, you might not give credit a second thought, especially if your plan includes paying off your mortgage and other debts, and relying more on cash than credit. But retirement could last many years, and your need for credit doesn't necessarily disappear on your last day of work. At some point you may want to buy a second home, move to a retirement community, take out a home equity loan, or buy a vehicle; it's also possible you will face an unexpected expense. Keeping your credit healthy may help you qualify for a lower interest rate or better terms on a loan or credit card, or if a credit check is involved, even help you land a part-time job or obtain a better deal on auto insurance.

When it comes to getting credit, it's not growing older that matters — lenders can't deny a credit application based solely on age. The factors that affect your ability to get credit are the same as for younger people and include your debt-to-income ratio (DTI) and your credit score.

Lenders use your DTI to measure your ability to repay money you borrow. This ratio is calculated by totaling your monthly debt payments then dividing that figure by your gross monthly income. For example, if your retirement income totals $6,000 and your debt payments total $2,000, your DTI is 33%. What's considered a good DTI will vary, depending on lender requirements and loan type, but lenders generally look for a DTI of 43% or less.[1]

If there's a reasonable chance you'll be applying for credit after you retire, consider what your DTI might be as you evaluate your retirement income needs or decide which debts to pay off. And think carefully about taking on new debt obligations, including co-signing a loan for a family member.

Another major factor lenders consider is your credit score. Retirement doesn't automatically affect your score, because credit reports only reflect your history of borrowing and repaying money, not your employment status or your salary. The three things that count the most toward your score are your payment history, the amount you owe on credit cards (including the percentage of available credit you're using), and the length of your credit history.[2] So continue to make credit card or loan payments on time (consider setting up autopay or reminders), aim to use no more than 10% to 30% of your credit limits, and consider the possible negative impact of closing accounts that you've had for years but no longer use.

Another way to help keep your credit healthy throughout retirement is to check your credit report regularly to spot errors or fraudulent transactions. You can order free copies of your credit report from Equifax, Experian, and TransUnion at the official site AnnualCreditReport.com.

1–2) Experian, 2023