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Planning Update

2025 Retirement Planning: What you need to know

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Get Your 2025 Retirement Game Plan in Gear!

It's 2025 and now is the time to take a fresh look at your retirement savings and planning strategy! The IRS has officially upped the ante, increasing contribution limits across several employer-sponsored retirement plans and retirement accounts. Whether you're a seasoned saver or just starting to stack those dollars for the future, these changes could help you maximize your retirement potential. After looking at the retirement plan options and accounts available, you just might want a little help. Burling Wealth Partners can help you navigate your financial goals with confidence.

Employer-Sponsored Retirement Plans:

401(k), 403(b), 457 Plans, & Thrift Savings Plans[1,2,3]

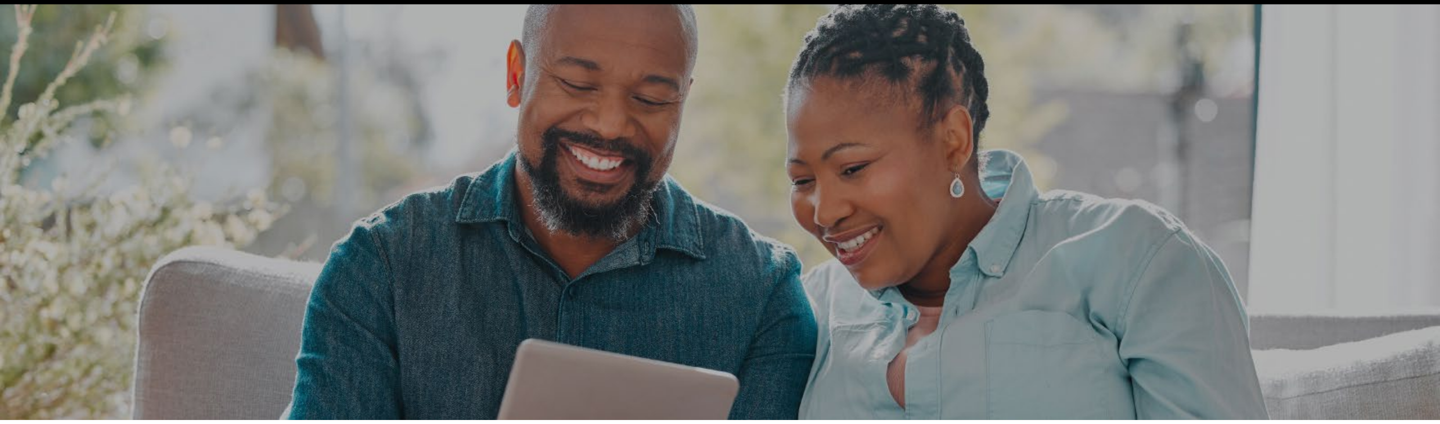
Contribution Limit Updates: The contribution limit for these plans has increased to $23,500 for 2025, up from $23,000 in 2024. For employees aged 50 and over, the catch-up contribution limit remains at $7,500 and thus allows for up to a $31,000 contribution.

What's New: Under the SECURE 2.0 Act, a higher catch-up contribution limit of $11,250 applies for employees aged 60, 61, 62, and 63, starting in 2025 (eligible if turning 60 and ineligible if turning 64). This gives eligible participants in 401(k), 403(b), 457 plans, and the federal government's Thrift Savings Plan the opportunity to contribute up to $34,750 per year. Talk about a big-time bump in savings potential!

Employer Matching[4]

Does Your Employer Provide a Match?: If yes, this match can be viewed as "free money" that can significantly boost your retirement savings. For instance, a matching program that offers 50% match on contributions up to 6% of your salary could add thousands of dollars annually to your retirement account.

Understanding the Matching Policy: It is also crucial to understand your company's policy on matching contributions. Is the match calculated per pay period, or will the amount will be trued up at year-end if you contribute the maximum amount earlier in the year? A dollar left unmatched is a dollar wasted—make the most of it!



Employer-Sponsored Retirement Plans:

Traditional and Roth 401(k) Options – What's the best 401(k) type for me?

- Many plans now offer both Traditional and Roth 401(k) contributions and it's important to consider the tax and cash flow implications for your election.
- Traditional contributions are made pre-tax, lowering your taxable income today. This provides an immediate tax deduction and reduces your current tax bill. Investments grow tax-deferred and ultimately results in taxes paid at ordinary income rates upon withdrawal.
- Roth 401(k) contributions are after-tax, meaning there is no tax deduction today. However, contributions and earnings grow tax-free with withdrawals enjoying tax-free status.

Choosing between a Traditional and Roth 401(k) isn't always straightforward — talk to your trusted advisor to weigh the pros and cons. Standard withdrawals from both are penalty-free after 59 ½, but your plan and situation may be subject to unique rules.

The After-Tax Mega Backdoor Roth Feature:

Does Your Retirement Plan Allow For After-Tax Mega Backdoor Roth Contributions?[5]

- The name might suggest it's too good to be true, but this plan feature is the real deal. Your plan must allow for after-tax contributions, offer in-service withdrawals into a Roth IRA or in-plan Roth conversions if you wish to keep the funds in a Roth 401(k). When implemented correctly, the after-tax mega backdoor Roth strategy is a powerful way to supercharge your savings.
- One way to accomplish this retirement savings feat is to first max out your Traditional or Roth 401(k) limit. Then contribute after-tax dollars to your plan and perform an in-service withdrawal or in-plan Roth conversion to your Roth IRA or Roth 401(k), respectively. The after-tax in-service withdrawal/in-plan conversion only applies to the after-tax portion contributed to your employer plan. Invest the additional dollars as appropriate and enjoy the amped-up retirement funds!
- Total defined benefit contributions for 2025—employee, employer, and after-tax—depend on age[6]:
  - Under 50: $70,000
  - Between 50-59 or 64+: $77,500
  - Between 60-63: $81,250

Contributions to an After-Tax Mega Backdoor Roth Offer Unique Advantages:

Potential Tax Rate Arbitrage: If you believe your tax rate today is lower than it will be in the future, paying the taxes today and letting investments grow could save you money in the long-run.

Unknown Future Tax Rates: While paying tax today may reduce your cash flow, today's historically low tax rates may provide peace of mind [7].

Liquidity Needs: Contributions (not earnings) can generally be withdrawn penalty-free, giving you flexibility should an unexpected need arise. However, it's important to consider your cashflow needs prior to contribution.

No Required Minimum Distributions (RMDs): Unlike traditional retirement accounts, Roth contributions allow you to avoid RMDs in retirement, letting your investments grow tax-free. You're able to withdraw on your timeline…not the government's.

No Income Limit: Unlike a regular Roth IRA contribution, this strategy has no income cap.

Don't wait until December to scramble and adjust your contributions. Proactivity may just be the best New Year's resolution you can put to work. After all, you're not just saving for retirement—you're investing in your future financial freedom.

While there are many advantages, implementing this strategy can be a potential tax trap. If after-tax funds grow before conversion, those earnings are taxable. Convert frequently or ensure minimal growth in the after-tax contribution prior to conversion. For example, typical low-growth investment options within your plan's lineup may include a cash equivalent or short-term fixed income strategy.

Before pursuing an after-tax mega backdoor Roth strategy, consult a financial advisor and verify the details with your employer's plan administrator to ensure compliance and proper execution.

Small Business and Self-Employed Options

Simple IRAs

Contribution Limits: Contribution limits for SIMPLE IRAs have risen to $16,500 (from $16,000 in 2024), with an additional $3,500 catch-up contribution for those 50+. These plans are available to small businesses with 100 or fewer employees who earned $5,000 or more during the preceding calendar year. SIMPLE IRAs are a straightforward, cost-effective way for employers to help their teams save for retirement.

SEP IRAs

Contribution Limits: The contribution cap for SEP IRAs, based on 25% of eligible compensation, has increased to $70,000, up from $69,000. SEP IRAs are ideal for self-employed individuals or small business owners looking to save significantly for retirement while minimizing plan administration. Eligibility typically extends to any employee who is at least 21 years old, has worked for the employer in three of the last five years, and has earned at least $750 in the current year.

IRA and Roth IRA Contribution Limits & Withdrawals

IRA and Roth IRA Contributions:

Contribution Limits: For 2025, the contribution limit for IRAs and Roth IRAs remains at $7,000, with an additional $1,000 catch-up contribution for those aged 50 and older. However, earned income is required to make contributions.

For married couples filing jointly, a non-working spouse can also contribute, provided the working spouse earns enough to cover it.

Income Limits for Roth IRA Contributions: Contributions to a Roth IRA are subject to income limits. For 2025, eligibility phases out for single filers with modified adjusted gross incomes (MAGI) between $150,000 and $165,000 and for married couples filing jointly between $236,000 and $246,000. If your income exceeds these limits, a backdoor Roth IRA contribution might be a viable strategy. This involves contributing to a traditional IRA and then converting it to a Roth IRA, enabling higher earners to take advantage of Roth benefits. If you’re unsure if you qualify, make sure you discuss your situation with your advisor team and a tax professional.

Understanding the differences between IRAs and Roth IRAs is essential:

Traditional IRA: Contributions may be tax-deductible, but withdrawals in retirement are taxed as ordinary income.

Roth IRA: Contributions are made with after-tax dollars, but qualified withdrawals are tax-free.

Withdrawing Funds from an IRA or Roth IRA:[8, 9]

Withdrawing from your IRA or Roth IRA before age 59½ typically incurs a 10% penalty, plus income tax for traditional IRAs. Roth IRA contributions (not earnings) can be withdrawn anytime, tax- and penalty-free. However, to withdraw Roth earnings tax- and penalty-free, you must be at least 59½ and have held the account for more than five years. Exceptions—such as withdrawing $10,000 for a first-time home purchase or using funds for qualified education expenses (such as tuition and books)—may also apply to your situation. For a comprehensive list of exceptions and further details, visit the IRS website.

Planning for retirement can feel overwhelming and that's where Burling Wealth Partners comes in. Our team specializes in helping clients make sense of their options and craft tailored strategies that align with their goals.

Disclosures:

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Burling Wealth Partners does not provide legal or tax advice, and the information contained herein should only be used in consultation with your legal, accounting and tax advisors.

Notes:
[1] Internal Revenue Service, *Retirement Plan Limit Updates for 2025*, IRS.gov.
[2] Internal Revenue Service, *Types of Retirement Plans*, IRS.gov.
[3] Thrift Savings Plan, *Contribution Limits*, TSP.gov.
[4] Charles Schwab, *Employer-Sponsored Retirement Accounts: Rules and Considerations*, Schwab.com.
[5] NerdWallet, *How Mega Backdoor Roths Work*, NerdWallet.com.
[6] Fidelity, *Roth 401(k) Contribution Limits*, Fidelity.com.
[7] Federal Reserve Bank of St. Louis, FRED
[8] Internal Revenue Service, *Topic No. 557 – Additional Tax on Early Distributions from Traditional and Roth IRAs*, IRS.gov.
[9] Internal Revenue Service, *IRA FAQs – Distributions (Withdrawals)*, IRS.gov.

CONTACT US

Email us at:

info@burlingwp.com

Visit us online at:

burlingwp.com

Schedule a call with:

ZACHARY PATZIK, CFA, CFP®
Managing Director
ZPatzik@burlingwp.com
312 825 0604

STEVEN RESNIK, JD, MBA
Managing Director
SResnik@burlingwp.com
312 825 0601