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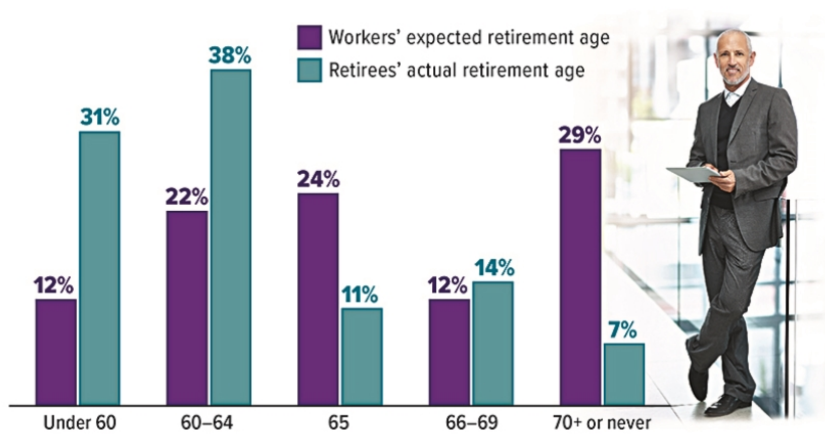
47%

Percentage of retirees who retired earlier than planned, with nearly one-third citing an unexpected hardship, such as a health problem or disability

Source: Employee Benefit Research Institute, 2022

Retirement Age Expectations vs. Reality

Workers typically plan to retire much later than the actual age reported by retirees. In the 2022 Retirement Confidence Survey, 65% of workers said they expect to retire at age 65 or older (or never retire), whereas 69% of retirees left the workforce before reaching age 65. When choosing a retirement age, it might be wise to consider a contingency plan.



Source: Employee Benefit Research Institute, 2022

Key Retirement and Tax Numbers for 2023

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 2023.

Estate, Gift, and Generation-Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2023 is $17,000, up from $16,000 in 2022.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2023 is $12,920,000, up from $12,060,000 in 2022.

Standard Deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2023, the standard deduction is:

- $13,850 (up from $12,950 in 2022) for single filers or married individuals filing separate returns
- $27,700 (up from $25,900 in 2022) for married joint filers
- $20,800 (up from $19,400 in 2022) for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2023 is:

- $1,850 (up from $1,750 in 2022) for single filers and heads of household
- $1,500 (up from $1,400 in 2022) for all other filing statuses

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

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,500 in 2023 (up from $6,000 in 2022), 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 chart).* 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 chart).* The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to a Roth IRA

	2022	2023
Single/Head of household	$129,000–$144,000	$138,000–$153,000
Married filing jointly	$204,000–$214,000	$218,000–$228,000
Married filing separately	$0–$10,000	$0–$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2022	2023
Single/Head of household	$68,000–$78,000	$73,000–$83,000
Married filing jointly	$109,000–$129,000	$116,000–$136,000

Note: The 2023 phaseout range is $218,000-$228,000 (up from $204,000-$214,000 in 2022) 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 $22,500 in compensation in 2023 (up from $20,500 in 2022); employees age 50 or older can defer up to an additional $7,500 in 2023 (up from $6,500 in 2022).
- Employees participating in a SIMPLE retirement plan can defer up to $15,500 in 2023 (up from $14,000 in 2022), and employees age 50 or older can defer up to an additional $3,500 in 2023 (up from $3,000 in 2022).

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,500 in 2023 (up from $2,300 in 2022) is taxed using the parents' tax rates.

Should You Consider Tax-Loss Harvesting?

Stock market losses can be rough on your portfolio's bottom line, but they may also offer the potential to reduce your tax liability and possibly buy shares at a discount. Whether this strategy — called tax-loss harvesting — is appropriate for you depends on a variety of factors, including your current portfolio performance, your long-term goals, and your current and future taxable income.

Gains and Losses

When an investment loses money, it's often best to look beyond current performance and hold it for the long term. Sometimes, though, you may want to sell a losing investment, which could help balance gains from selling an investment that has appreciated or reduce your taxable income even if you do not have gains.

Capital gains and losses are classified as long term if the investment was held for more than one year, and short term if it was held for one year or less. Long-term gains are taxed at a rate of 0%, 15%, or 20% depending on your income. Short-term gains are taxed at your ordinary income tax rate, which may be much higher than your capital gains rate.

For tax purposes, capital losses are applied first to like capital gains and then to the other type of gains; for example, long-term losses are applied first to long-term gains and then to short-term gains. Up to $3,000 of any remaining losses can then be applied to your ordinary income for the current year ($1,500 if you are married filing separately). Finally, any remaining losses can be carried over to be applied to capital gains or ordinary income in future years. For most taxpayers, the biggest benefit comes when applying losses to short-term gains or ordinary income.

Selling, Buying, and Washing

Some investors sell losing investments with the idea of harvesting the tax loss and then buying the same investment while its price remains low. In order to discourage this, the IRS has a *wash-sale* rule, which prohibits buying "substantially identical stock or securities" within 30 days prior to or after a sale. This also applies to securities purchased by your spouse or a company you own.

It is impossible to time the market, but under the right circumstances, harvesting a tax loss and then buying the same security at least 30 days later (i.e., after the wash-sale period) could potentially result in a lower tax liability when you sell that security later at a gain.

2023 Income and Capital Gains Tax Rates

Taxable income		
Income tax rate	**Single filers**	**Joint filers**
10%	Up to $11,000	Up to $22,000
12%	$11,001 to $44,725	$22,001 to $89,450
22%	$44,726 to $95,375	$89,451 to $190,750
24%	$95,376 to $182,100	$190,751 to $364,200
32%	$182,101 to $231,250	$364,201 to $462,500
35%	$231,251 to $578,125	$462,501 to $693,750
37%	Over $578,125	Over $693,750

Taxable income		
Long-term capital gains tax rate	**Single filers**	**Joint filers**
0%	Up to $44,625	Up to $89,250
15%	$44,626 to $492,300	$89,251 to $553,850
20%	Over $492,300	Over $553,850

This is most likely if you repurchase the security at a similar or lower price, and you are in a higher tax bracket at the time you take the loss than at the time you take the gain — for example, if you take the loss while working and sell when you are retired.

Any year in which your taxable income falls within the 0% capital gains rate is an opportune time to take gains, and any losses in that year would be applied to short-term gains or ordinary income. Keep in mind that capital gains and losses apply only when investments are sold in a taxable account.

Tax-loss harvesting is a complex strategy, and it would be wise to consult your financial professional before taking action. Although there is no guarantee that working with a financial professional will improve investment results, a professional can evaluate your objectives and available resources and help you consider appropriate long-term financial strategies.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

The Inflation Experience Is Painful and Personal

Inflation is a sustained increase in prices that reduces the purchasing power of your money over time. According to the Consumer Price Index (CPI), inflation peaked at an annual rate of 9.1% in June 2022, the fastest pace since 1981, before ticking down to 7.7% in October.[1]

The CPI tracks changes in the cost of a market basket of goods and services purchased by consumers. Items are sorted into more than 200 categories and weighted according to their "relative importance," a ratio that represents how consumers divide up their spending, on average. Basic needs such as shelter (33%), food (14%), energy (8%), transportation (8%), and medical care (7%) account for about two-thirds of consumer expenditures. Because the CPI is a comprehensive measure of prices across the U.S. economy, the index also contains many items that an individual consumer may purchase infrequently, or not at all.

Wide variations in spending patterns help explain why some consumers feel the sting of inflation more than others. This means that the extent to which you experience inflation depends a lot on where you live, as well as your age, health, income, family size, and lifestyle. In effect, your personal inflation rate could be significantly higher or lower than the average headline inflation rate captured in the CPI. Consider the following examples.

- In October 2022, the 12-month increase in the cost of shelter was 6.9%.[2] Shelter carries the most weight of any category in the CPI, which made fast-rising home prices and rents a top driver of inflation over the previous year. A first-time homebuyer, or a renter who signs a new lease, is likely to feel the full impact of these hefty price increases. However, a homeowner with a fixed-rate mortgage is generally insulated from these rising costs and might even benefit financially from home-equity gains.
- Gasoline surged 17.5% during the 12 months ended in October 2022.[3] Individuals who rarely drive, possibly because they are retired or work remotely, might have been able to shrug off the price spike. But for drivers with long commutes, filling up the gas tank regularly might have put a sizable dent in their households' finances, in some cases forcing them to cut back on other purchases.
- Food and beverage prices rose 10.9% over the same 12-month period, a trend that clearly affects everyone.[4] But rising food costs tend to put more pressure on the budgets of lower-income households because they spend a greater share of their income on necessities and typically have smaller financial cushions. Plus, shoppers can't easily switch to lower-cost options if they are already relying on them.[5]

1-4) U.S. Bureau of Labor Statistics, 2022

5) Federal Reserve, 2022