Financial Strategies

News You Can Use!!

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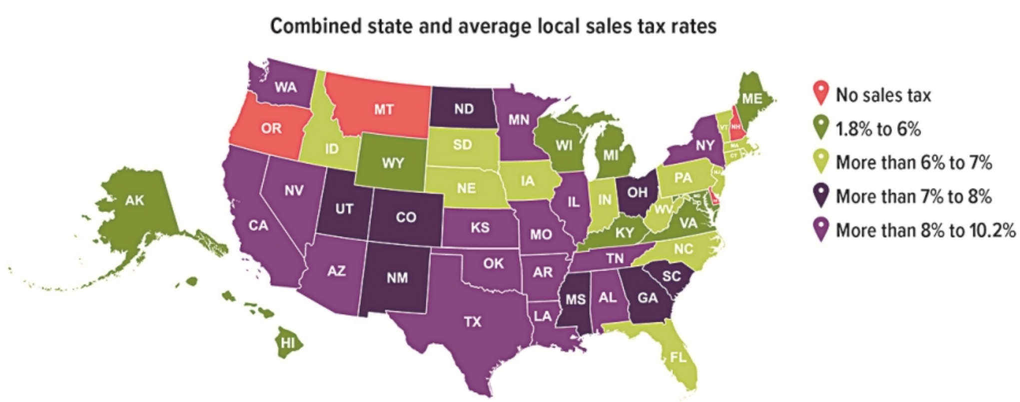
8

Number of states that don't have a state income tax: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, and Wyoming; and Washington taxes only capital gains

Source: Tax Foundation, February 2025

State and Local Sales Tax Across the Map

Among the 46 states (and the District of Columbia) with a state and/or local sales tax, the combined state and average local sales tax rates range from about 1.8% to 10.2%. The sales tax base (defining what is taxable and nontaxable) can also vary greatly. Some states exempt groceries and/or clothing from the sales tax or tax them at a reduced rate. Five states have no statewide sales tax, and of those, only Alaska allows local sales taxes.



Source: Tax Foundation, February 2025

Will You Pay a Medicare Surcharge?

Medicare is a federal program that provides health insurance to retired individuals, regardless of their medical condition, and certain younger people with disabilities or end-stage renal disease. Medicare has several parts, many of which include a premium cost based on your tax filing status and income. If your income is high, in some cases you may be subject to a premium surcharge called the income-related monthly adjustment amount (IRMAA).

What does Medicare cover?

Medicare coverage consists of two main parts: Medicare Part A (hospital insurance) and Medicare Part B (medical insurance). These parts together are known as Original Medicare. A third part, Medicare Part C (Medicare Advantage), covers all Part A and Part B services and may provide additional services. A fourth part, Medicare Part D, offers prescription drug coverage that can help you handle the rising costs of prescriptions.

What does Medicare cost?

Most people age 65 or older who are citizens or permanent residents of the United States are eligible for Medicare Part A without paying a monthly premium. Although Medicare Part B is optional, most people sign up for it. If you want to join a Medicare Advantage plan, you'll need to enroll in both Parts A and B. And Medicare Part B is never free — you'll pay a monthly premium for it, even if you are eligible for premium-free Medicare Part A. If you delay starting Part B or Part D after age 65, you may also be subject to a surcharge unless you continue to work and are covered by a workplace health plan.

The standard Part B premium is $185.00 in 2025. However, premiums for Part B and Part D can vary based on income levels. If your modified adjusted gross income (MAGI) as reported on your federal income tax return from two years ago is above a certain amount, you'll pay the standard premium plus the IRMAA surcharge. You'll receive a notice from the Social Security Administration if you're subject to IRMAA.

The table shows what you'll pay per month in 2025 based on your tax filing status and income:

MAGI for single filers	MAGI for joint filers	Part B premium	Part D premium
$106,000 or less	$212,000 or less	$185.00	Your plan premium
$106,001 – $133,000	$212,001 – $266,000	$259.00	$13.70 + plan premium
$133,001 – $167,000	$266,001 – $334,000	$370.00	$35.30 + plan premium
$167,001 – $200,000	$334,001 – $400,000	$480.90	$57.00 + plan premium
$200,001 – $499,999	$400,001 – $749,999	$591.90	$78.60 + plan premium
$500,000 or above	$750,000 or above	$628.90	$85.80 + plan premium

Premiums for 2025 are based on MAGI for the 2023 tax year. Source: Centers for Medicare & Medicaid Services, 2024

What can you do to lower your income?

Most people may see a decline in their income once they retire. However, high-income Medicare recipients may want to lower their income to help reduce the potential premium surcharges. Here are some ideas:

- Put off transactions that could increase income, such as the sale of real estate or stocks.
- Defer distributions from tax-qualified accounts such as IRAs and 401(k)s as long as possible.
- Rethink the timing of converting IRA funds to a Roth IRA to avoid increased taxable income.

Since your income is based on information from two years ago, it may subsequently change, or you may experience a life-changing event (as defined by the SSA) that causes a reduction in your income. Report income changes to the SSA as soon as possible. You'll need to provide documentation verifying the event and your reduction in income. Visit https://www.ssa.gov/benefits for more information.

Get help

Navigating Medicare programs and their costs can be tricky. You might consider consulting with an appropriately qualified professional for help.

Convertible Bonds Straddle the Line Between Fixed Income and Potential Growth

A convertible bond is a regular corporate bond that comes with a special added feature: the investor has the right to convert it into shares of that company's common stock.

U.S. convertible bond issuance reached $96.0 billion in 2024, far surpassing the $61.5 billion issued in 2023.[1] The strong upward trend that began in 2023 picked up steam in 2024, driven by the resilience of the U.S. economy and interest rates that remained elevated longer than expected.[2]

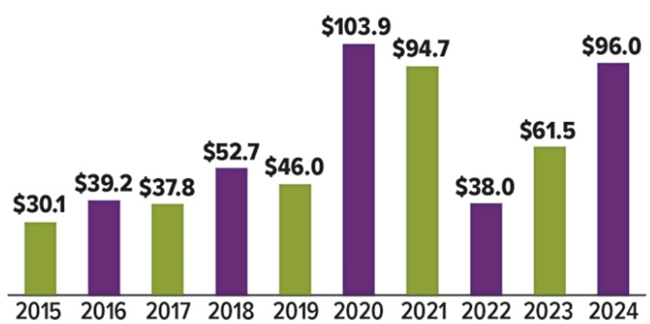
Why companies choose convertibles

Convertible bonds tend to offer lower interest rates than ordinary bonds issued by the same company. They also provide a way for companies to raise capital while avoiding the immediate dilution of share values that occurs when new stock is sold.

Convertible bonds have long been utilized by corporations with less than stellar credit ratings, including younger companies and those with weak balance sheets. But with interest rates sitting at high levels, more established, investment-grade companies have also been relying on convertible debt to help lower their borrowing costs.

In addition, a "maturity wall" of more than $1.2 trillion in investment-grade corporate debt is coming due in the next couple of years. Many of these companies could try to save money by refinancing their debt with convertible bonds.[3]

U.S. convertible bond new issuance, proceeds in billions



Source: SIFMA, 2025

What's under the hood for investors

Bond holders will receive income and principal unless the bond issuer defaults. Convertible bonds combine the income and relative price stability of bonds with the opportunity to participate in stock market returns. Thus, their value on the open market is affected not only by interest rates, as all bonds are, but also by changes in the company's stock price.

The bond agreement spells out either how many shares of stock the bond can be converted into (the conversion ratio), or the stock price at which the conversion can be made (the conversion price). For example, a bond that can be converted into 45 shares of stock would have a conversion ratio of 45:1. A $1,000 bond that has a conversion price of $50 a share would convert to 20 shares of stock.

If the stock's price rises, the convertible's price also rises, though convertibles usually are not as volatile as the stock itself. If the stock's price falls, the convertible's value on the open market could be less than its face value if sold before it matures, though the fixed interest it pays could help cushion the impact.

Challenges to consider

Most convertibles are callable, usually within five years after they're issued. If the stock price doesn't rise before the bond is called, the advantage of being able to convert the bond disappears.

Convertibles can also be relatively illiquid. As a result, individual investors may have difficulty finding buyers and sellers for small lots and end up paying higher prices than institutional investors.

In fact, liquidity is one of several reasons an investor might prefer to access convertibles through a mutual fund or exchange-traded fund (ETF) instead of purchasing individual bonds: the use of funds makes it easier to compare investment performance, and it can also help increase portfolio diversification.

Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. The return and principal value of bonds, stocks, mutual funds, and ETFs fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Bond funds are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds. Supply and demand may cause ETF shares to trade at a premium or discount relative to the value of the underlying shares. Investments seeking to achieve higher yields also involve a higher degree of risk.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) SIFMA, 2025

2) London Stock Exchange Group, 2024

3) *The Financial Times,* January 2, 2024

Breaking Down the Numbers: The Soaring U.S. National Debt

The U.S. national debt is the total amount of money owed by the federal government. As of January 2025, it stands at $36.16 trillion.[1]

The difference between deficit and debt

When the federal government spends more money than it collects in taxes in any given fiscal year (the government's fiscal year runs from October 1 to September 30), there is a deficit. The opposite of a deficit is a surplus.

To fund its operations when there is a deficit, the government borrows money by selling Treasury notes, bills, bonds, and other securities to investors, paying interest based on the interest rate environment at the time the security is issued. The interest owed to these investors adds to each year's spending deficit (if any) and further increases the national debt over time.

In the past 50 years, the U.S. has run a deficit 46 times. The last U.S. budget surplus was in 2001. In 2024, the deficit was $1.83 trillion, the third-highest on record. The highest deficit was in 2020 during the pandemic, when it was $3.13 trillion.[2]

Why is the national debt so high?

There are several reasons for the ballooning national debt. One reason is previous tax cuts and pandemic spending. Another major reason is the increasing cost of Social Security and Medicare, two popular programs that serve a growing demographic of older Americans and make up the two biggest slices of the federal budget pie.[3] Cutting spending on these programs is not politically popular, though in theory, future benefits could be trimmed. Military spending also consumes a significant portion of the federal budget.

A category of spending that can't be cut is the interest the federal government must pay to investors who have purchased Treasury securities, which is consuming an increasing share of the federal budget. This is sometimes referred to as "servicing the national debt." As of September 2024, $1.13 trillion went toward maintaining the debt, which was 17% of total federal spending in fiscal year 2024.[4]

Comparing a country's total debt to its gross domestic product (GDP) is typically a better way to gauge a country's ability to pay down its debt than just looking at the raw debt number. For fiscal year 2024, the U.S. debt-to-GDP ratio was 124%. This was just under the record 126% in 2020.[5] According to the nonpartisan Congressional Budget Office, based on current spending and revenue projections, the debt-to-GDP ratio is projected to reach 179% by 2054.[6]

Clearly, Congress has work ahead to better balance U.S. revenue and spending.

Projections are based on current conditions, subject to change, and may not come to pass.

1–5) fiscaldata.treasury.gov, 2025

6) Congressional Budget Office, 2025