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## Steady Growth in Real Wages

Wages rose strongly with inflation beginning in mid-2021, but the pace of price increases was faster than wage increases, leading to a loss of buying power despite higher income. *Real wages* — adjusted for inflation — actually declined during this period. For example, at the height of inflation in June 2022, wages increased at an annual rate of 6.7%, but real wages declined by 2.4%.

Inflation has dropped dramatically since then, while wage growth has cooled more slowly, leading to solid gains in real wages. If this trend continues, it could help keep the economy strong as workers catch up from the hardship of high inflation and benefit from increased income in relation to the cost of living.



Sources: Federal Reserve Bank of Atlanta, 2024; U.S. Bureau of Labor Statistics, 2024. Wage growth is calculated by comparing the median percentage change in wages reported by individuals 12 months apart; real wage growth is calculated by subtracting CPI-U inflation from wage growth.



**\$35.61**

Average hourly earnings in November 2024, up from \$34.23 one year earlier. After adjusting for inflation by using constant 1982–1984 dollars (i.e., the value of a dollar in 1982–1984), the November 2024 average was \$11.25, up from \$11.11 in November 2023, but still below the peak of \$11.72 in April 2020 — when the pandemic recession caused the unusual combination of a wage spike with near-zero inflation.

Source: U.S. Bureau of Labor Statistics, 2024

# Accounts for Two: A Team Approach to Retirement Savings

Almost half of U.S. families headed by a married couple include two working spouses.<sup>1</sup> With dual careers, many spouses accumulate assets in separate retirement accounts. Each might have funds in an employer-sponsored plan and an IRA.

Even if most of a married couple's retirement assets reside in different accounts, open communication and teamwork can help them craft a unified retirement strategy.

## Working together

Tax-deferred retirement accounts such as 401(k)s, 403(b)s, and IRAs can be held in only one person's name. [A spouse is required to be the beneficiary of a 401(k), and to some extent, a 403(b), unless the spouse signs a written waiver.] Taxable investment accounts, on the other hand, may be held jointly.

Owning and managing separate portfolios allows each spouse to choose investments based on his or her individual risk tolerance. Some couples may prefer to maintain a high level of independence for this reason, especially if one spouse is more comfortable with market volatility than the other.

However, sharing plan information and coordinating investments could help some couples build more wealth over time. For example, one spouse's workplace plan may offer a broader selection of investment options, while the offerings in the other's plan might be somewhat limited. One employer may offer a better contribution match than the other.

Spouses who use a joint strategy might agree on an appropriate asset allocation for their combined savings and invest their contributions in a way that takes advantage of each plan's strengths while minimizing any weaknesses. (Asset allocation is a method to help manage investment risk; it does not guarantee a profit or protect against loss.)

In 2025, the maximum employee contribution to a 401(k) or 403(b) plan is \$23,500 (plus an extra \$7,500 for those age 50 and older or an extra \$11,250 for those age 60 to 63). Employers often match contributions up to a set percentage of salary.

## Spousal IRA opportunity

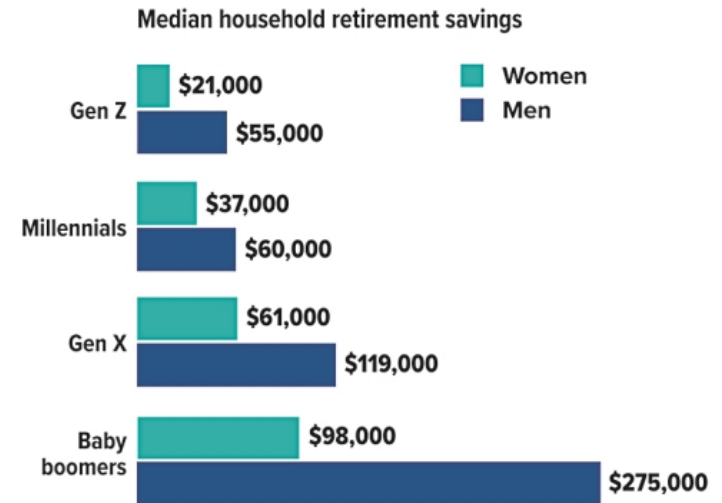
While many married couples have two wage earners, some spouses stay home to take care of children or other family members, or just to take a break from the workforce. And it's not unusual for one spouse to retire while the other continues to work. In any of these situations, it can be difficult to keep retirement savings on track.

Fortunately, a couple can contribute \$7,000 to the working spouse's IRA and an additional \$7,000 to the nonworking spouse's IRA (in 2024 and 2025), as long as their combined income exceeds both contributions

and they file a joint tax return. An additional \$1,000 catch-up contribution can be made for each spouse who is age 50 or older. All other IRA eligibility rules must be met.

## Lagging Balances

Despite solid saving habits, women report lower household retirement savings than men across all age groups. This is due primarily to lower wages, more women working part-time without benefits, and more women taking time off to care for children and other family members.



Source: Transamerica Center for Retirement Studies, 2024 (2023 data)

Contributing to a spousal IRA may not only help a couple with a nonworking spouse save more towards retirement, it might also offer a potentially valuable tax deduction. That's because the IRS imposes higher income limitations for deductible contributions to spousal IRAs than for contributions made to the IRA of an active participant in an employer plan.

For married couples filing jointly, the ability to deduct contributions to the IRA of an active participant in a work-based plan is phased out at a modified adjusted gross income (MAGI) between \$123,000 and \$143,000 in 2024 (\$126,000 and \$146,000 in 2025). When the contribution is made to the IRA of a nonparticipating spouse, the phaseout limits are higher: MAGI between \$230,000 and \$240,000 in 2024 (\$236,000 and \$246,000 in 2025).

IRA contributions for the 2024 tax year can be made up to the April 15, 2025, tax filing deadline (May 1, 2025, for taxpayers affected by certain natural disasters).

*Withdrawals from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal tax penalty if withdrawn prior to age 59½, with certain exceptions as outlined by the IRS.*

1) U.S. Bureau of Labor Statistics, 2024 (2023 data)

# Key Retirement and Tax Numbers for 2025

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 2025.

## Estate, gift, and generation-skipping transfer tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2025 is \$19,000, up from \$18,000 in 2024.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2025 is \$13,990,000, up from \$13,610,000 in 2024.

## Standard deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2025, the standard deduction is:

- \$15,000 (up from \$14,600 in 2024) for single filers or married individuals filing separate returns
- \$30,000 (up from \$29,200 in 2024) for married joint filers
- \$22,500 (up from \$21,900 in 2024) for heads of households

The additional standard deduction amount for the blind and those age 65 or older in 2025 is:

- \$2,000 (up from \$1,950 in 2024) for single filers and heads of households
- \$1,600 (up from \$1,550 in 2024) 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 2025 (the same as in 2024), 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

	2024	2025
Single/Head of household	\$146,000–\$161,000	\$150,000–\$165,000
Married filing jointly	\$230,000–\$240,000	\$236,000–\$246,000
Married filing separately	\$0–\$10,000	\$0–\$10,000

### MAGI Ranges: Deductible Contributions to a Traditional IRA

	2024	2025
Single/Head of household	\$77,000–\$87,000	\$79,000–\$89,000
Married filing jointly	\$123,000–\$143,000	\$126,000–\$146,000

*Note: The 2025 phaseout range is \$236,000–\$246,000 (up from \$230,000–\$240,000 in 2024) 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 \$23,500 in compensation in 2025 (up from \$23,000 in 2024); employees age 50 or older can defer up to an additional \$7,500 in 2025 (the same as in 2024), increased to \$11,250 in 2025 for ages 60 to 63.
- Employees participating in a SIMPLE retirement plan can defer up to \$16,500 in 2025 (up from \$16,000 in 2024), and employees age 50 or older can defer up to an additional \$3,500 in 2025 (the same as in 2024), increased to \$5,250 in 2025 for ages 60 to 63.

## Kiddie tax: child's unearned income

Under the kiddie tax, a child's unearned income above \$2,700 in 2025 (up from \$2,600 in 2024) is taxed using the parents' tax rates.

# Get Ready for Tax Time

According to one survey, 42% of Americans would rather go to the dentist than file their taxes.<sup>1</sup> Tax season might not be your favorite time of the year, but a little preparation can help make the tax filing process as smooth and painless as possible.

**Review last year's tax return.** Not everything will stay the same, but checking last year's return can reveal information you might need this year. If you use an accountant or professional tax preparer, you may receive a checklist or questionnaire to help you get organized.

**Think about recent life events.** During 2024, did you tie (or untie) the knot, grow your family, buy or sell a home, start a job, send a child to college, retire, receive an inheritance, or have high health-care costs? These are just some of the common events that might affect your tax return, including the filing status you choose, the amount of income or expenses you have, or tax deductions and credits you might be entitled to.

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*April 15, 2025, is the tax filing deadline for most taxpayers.*



**Gather supporting documents.** You'll automatically receive some tax documents and statements electronically or by mail in January or February. You may need to locate others yourself.

Depending on your situation and whether you itemize deductions or take the standard deduction, supporting documents may include:

- W-2 forms showing wages from your employers
- 1099 forms that report other types of income you received, including interest from banks and brokers, dividends and distributions, retirement plan or health savings account (HSA) distributions, Social Security benefits, and self-employment income
- 1098 forms for mortgage interest, property taxes, or education-related payments
- Receipts or statements for child-care or medical costs
- Receipts for donations to charity

Collect supporting documents in one place, and make a list of information you're missing so that you can check it off the list once you have it.

**Consider making IRA or HSA contributions.** If you're eligible, you can contribute to a traditional IRA (deductible or not), Roth IRA, or an HSA for 2024 up until the tax filing deadline, as long as you haven't already reached the contribution limit for the year.

1) Chamber of Commerce, 2024

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