6 January 2025, 10:43PM UTC
Chief Investment Office GWM
Investment Research

2025 Retirement guide

Modern retirement monthly

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- In this year's Retirement guide, we discuss what's new with Social Security and Medicare, and provide a few SECURE 2.0 Act reminders to keep in mind this year, such as the indexed qualified charitable distribution (QCD) limit and the new super catch-up contribution limit for 401(k) plans.
- We include a list of the three considerations if you're considering retiring this year, including how to make sure you have enough resources set aside to meet your near-term goals, why you should consider tax-smart strategies, and how to prepare for healthcare and long-term care expenses in retirement.
- In the Appendix, we review Medicare Parts A, B, C, and D and provide a reference guide to the IRS tables for 2025, including tax brackets and gift and estate tax thresholds.

In this report, we provide an update on what's new this year for the retirement planning landscape, including a few SECURE 2.0 Act provisions that become effective this year, as well as Social Security and Medicare updates. And to help you prepare for potentially higher income tax rates if Congress does not extend the 2017 Tax Cuts and Jobs Act tax breaks when they expire in 2026, we review key strategies to help you improve the after-tax growth potential of your retirement assets.

Medicare & Social Security

2025 Medicare Part B premium increase: 5.9%

The standard monthly premium for Medicare Part B is increasing to $185 per person this year, up from $174.70 per person in 2024.

If your modified adjusted gross income (MAGI) from two years prior is above a certain amount, you'll pay the standard premium as well as an income-related monthly adjustment amount (IRMAA). These income-related surcharges for Part B premiums will also increase by 5.9%.

There are several other costs that may have changed as well. For instance, premiums for supplemental or Medicare Advantage coverage may see changes that are separate from the increase to Part B premiums. We suggest reviewing changes to your income and coverage, and making sure that you're aware of all the costs you may be exposed to.

2025 cost-of-living adjustment (COLA): 2.5%

Each year, Social Security benefits may be increased based on a measurement of inflation, with the goal of protecting the purchasing power of your benefits. In 2025, Social Security retirement benefits will see an increase of 2.5%.

While the annual benefit increases have historically kept up with the Consumer Price Index (CPI) of broad inflation, many retirees may find that they do not keep pace with their own personal expenditures' inflation.

One reason for this is because the Social Security Administration calculates COLAs using the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

Since many retirees are not urban dwellers or wage earners, this inflation index likely doesn't capture the spending composition of many retired households.

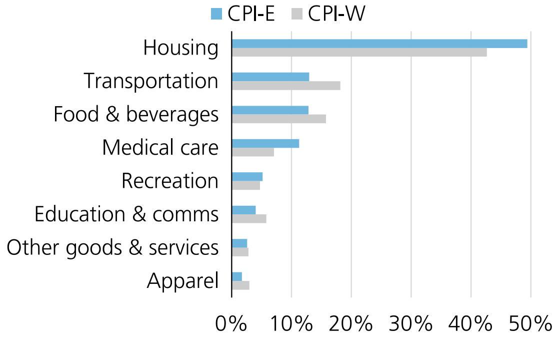
The Bureau of Labor Statistics maintains another price index, known as the Consumer Price Index for the Elderly (CPI-E) specifically developed to track the expenses of households of people age 62 and older.

Looking at the relative importance ratios of components of CPI-E compared to CPI-W, it shows that retirees tend to spend a higher percentage of their consumption on housing and medical care, and a smaller percentage on transportation, education, and apparel.

Periods of high price inflation in housing and medical care can therefore have an exacerbated effect on Social Security's purchasing power.

Figure 1 - Retirees spend differently than pre-retirees

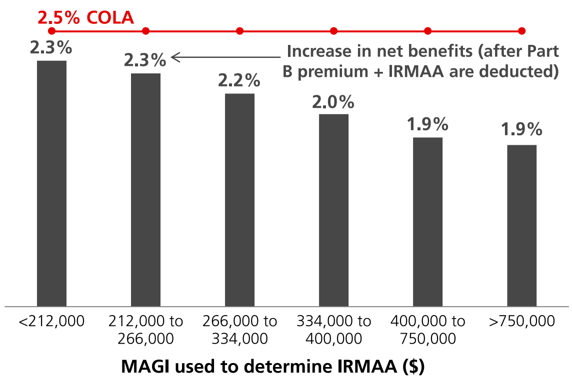
Relative importance of expenditure categories for the Consumer Price Index for the Elderly (CPI-E) and the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W)



Source: Bureau of Labor Statistics, UBS.

With this in mind, don't assume that this year's COLA will give you a net boost to your spending power. This is particularly important if you have your Medicare Part B premiums directly withheld from your Social Security payments—an increased deduction for Part B premiums means that the 2.5% COLA most likely won't result in an equal increase in your net benefit, especially if you're subject to income-related surcharges for Part B.

Figure 2 - Higher income households won't see as much of an increase to their net Social Security benefits



Source: Centers for Medicare and Medicaid Services, Social Security Administration, UBS.

In order to understand the full extent of the COLA, you'll need to review how all of your income has adjusted relative to all of your expenses. We suggest including this in your next discussion with your financial advisor, who can help you review your financial plan to ensure you're still on track to meet your future spending needs.

Revisiting the SECURE 2.0 Act

Below, we highlight the SECURE 2.0 Act provisions that are particularly important to individuals with assets held in employer-sponsored retirement plans and IRAs in 2025. Please consult with your plan provider, financial advisor, and tax advisor before taking any action in response to the provisions listed below.

Age-based catch-up contribution limits
Starting in 2025, employers have the option to allow a higher catch-up contribution limit to their 401(k), 403(b), or 457(b) plans for participants who attain ages 60-63 by the end of the calendar year. If your employer plan permits, and you are eligible, you may be able to make catch-up contributions up to $10,000 or 150% of the regular Age 50-plus Catch-Up contribution limit that year, whichever is greater.

Since the regular Age 50-plus Catch-Up contribution limit is $7,500 in 2025, those eligible for the Age 60-63 Super Catch-Up contribution can contribute an additional $11,250 in 2025 ($34,750 total).

Bear in mind that employers are not required to offer catch-up contributions in their plans. If you will be attaining ages 60, 61, 62, or 63 in 2025, reach out to your employer to see if they intend to implement this provision into their plan. If this might be an option in your plan this year or in coming years, discuss the details with your financial advisor before making any significant changes to your savings strategy.

Important update: The provision that subjects catch-up contributions to qualified retirement plans to Roth tax treatment is delayed to 2026. This means you can still make catch-up contributions to your employer-sponsored plan on a pre-tax or Roth basis (if the plan allows). Starting in 2026, catch-up contributions will be subject to Roth tax treatment if your compensation is above $145,000 (indexed to inflation).

RMDs begin at age 73
If you turned 73 in 2024 or later, you don’t have to start taking required minimum distributions (RMDs) until you reach age 73 (prior to the SECURE 2.0 Act, RMDs began at age 72). If you reach age 73 in 2033 or later, then you won’t be subject to RMDs until age 75.

Birth year	1951 – 1959	1960 or later
Age when RMD begins	73	75

If you turn age 73 in 2025, you have until 1 April 2026 to satisfy your first RMD (2025’s RMD) and you have until 31 December 2026 to take your second RMD. Keep in mind that if you were to take both RMDs in 2026, it could push you into a higher tax bracket, leading to a higher tax cost as both distributions would be taxable in one tax year.

You can give more to charity through a QCD
Qualified charitable distributions (QCDs) give you and your spouse the opportunity to transfer some of your retirement assets directly to qualified charities without incurring income tax on those dollars, while simultaneously offsetting all or a portion of your RMD that year.[1]

Thanks to the SECURE 2.0 Act, the annual limit for QCDs is indexed for inflation. In 2025, the annual QCD limit has increased to $108,000 (up from $105,000 in 2024).

If QCDs are part of your giving strategy, revisit these distributions with your financial advisor to adjust the amount to align with the increased limits this year.

Some 529 assets can be rolled over to a Roth IRA
The owner of a 529 account that's been opened for more than 15 years can transfer up to $35,000 (lifetime limit per beneficiary) from that account to a Roth IRA for the 529's beneficiary (not to the account owner's Roth IRA).

This provision makes it more beneficial to save for college education earlier—the sooner you open the 529 account, the sooner you'll meet the 15-year requirement. It's important to note that amounts contributed to the 529 in the last five years and their earnings are ineligible to be rolled over.

Additionally, the beneficiary must have earned income that year and these rollovers will be subject to Roth IRA annual contribution limits (currently $7,000). This means that you can only roll over an amount up to that year's contribution limit, less any other IRA contributions you make that year. However, unlike regular Roth IRA contributions, eligibility to complete this rollover will not be affected by the beneficiary's income level.

Given these limitations, we don't suggest deliberately overfunding your 529 plan to take advantage of this provision. However, families now have another option to help some of their leftover 529 assets avoid being taxed or penalized upon distribution. For more information, please see "529 College Savings FAQ."

For more SECURE 2.0 Act reminders, please see the "Summary and next steps" section.

Three considerations if you're retiring this year

1. Right-size your Liquidity strategy. A Liquidity strategy can help you to maintain your lifestyle, even during pockets of market volatility.

By helping you to fund your spending needs from resources that prioritize capital preservation, your Liquidity strategy can help you to avoid locking in otherwise-temporary losses in your core part of your portfolio.

As you approach and enter retirement, we recommend setting aside all the funds you'll need to pull from your portfolio over the next 3-5 years in a Liquidity strategy, funded with cash, bonds, and borrowing capacity. Historically, 3-5 years would have been enough time for your long-term portfolio to fully recover its losses—even after the worst bear markets.

Your Liquidity strategy should reflect the funds that you plan to withdraw from your portfolio. As you reflect on your spending plans, consider how your spending habits have changed in recent years and how they may change in the next few years.

Be sure to talk with your family and your financial advisor, and incorporate any large one-off expenses on the horizon.

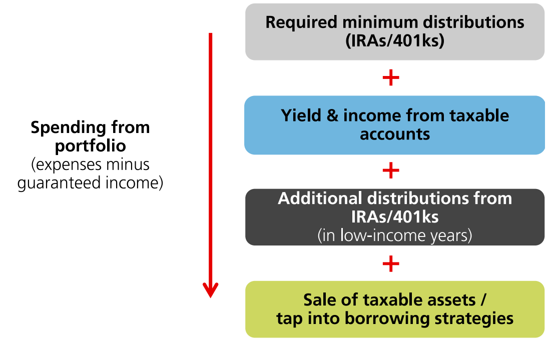
For more information, please see "[Liquidity strategy: Refilling for 2025 and beyond]."

2. Spread taxable income over time. The income tax system is progressive (you pay an incrementally higher tax rate in years when your annual income is higher), so the key to funding your retirement spending on a tax-efficient basis is to implement a dynamic withdrawal strategy that accounts for your tax bracket and tax rate on a year-by-year basis; the "spending waterfall" shown in Figure 3 summarizes some key considerations.

The spending waterfall does a good job of helping you to minimize taxes in the current year, but this may defer too much of your taxable income into later years, resulting in larger required minimum distributions (RMDs) and a higher tax burden in the future.

Figure 3 - A "spending waterfall" can help you manage taxes

Suggested sequence of withdrawals to help improve tax efficiency

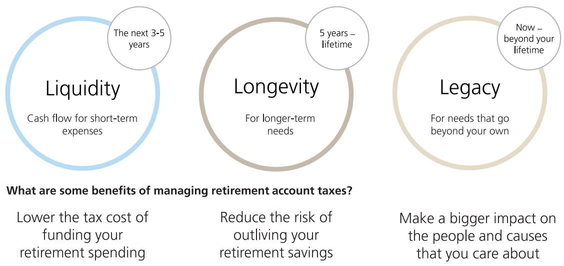


Source: UBS. Note: Assets held in a Health Savings Account (HSA) should be prioritized for qualified medical expenses during retirement. When leftover HSA assets are inherited by a non-spouse beneficiary, they generally lose their tax-exempt status.

The spending waterfall also implicitly assumes that you will need to spend your IRA distributions, but in many cases you may want to reinvest them for growth, either for your Longevity strategy (lifetime spending needs) or for your Legacy strategy (for inheritance and philanthropy).

Figure 4 - Managing retirement account taxes can help you achieve your goals

The Liquidity. Longevity. Legacy. framework



Source: UBS.

UBS Wealth Way is an approach incorporating Liquidity. Longevity. Legacy. strategies that UBS Financial Services Inc. and our Financial Advisors can use to assist clients in exploring and pursuing their wealth management needs and goals over different time frames. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved. All investments involve the risk of loss, including the risk of loss of the entire investment. Time frames may vary. Strategies are subject to individual client goals, objectives and suitability.

To enhance the value of the spending waterfall, consider the impact that partial Roth conversions could have on the success of your financial plan.

The fair market value of the amount that you convert will count as taxable income, so Roth conversions in low-tax years are a great way to fund tax-exempt assets that will continue growing, won't be subject to lifetime RMDs, and will pass income tax free to your beneficiaries. For more information, please see "Roth conversions to defuse your 'tax bomb'."

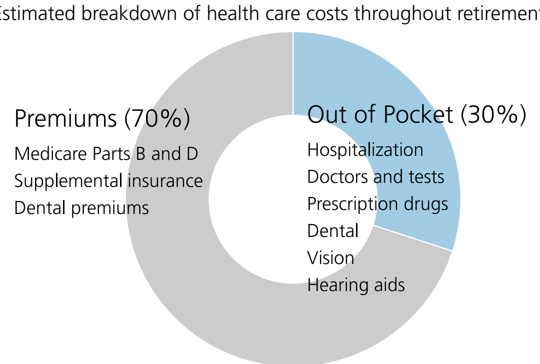
3. Review health care and potential long-term care costs. One common misconception about Medicare is that it is free. In reality, households have to pay a monthly premium for the program, and Medicare participants are responsible for co-pays, coverage gaps, long-term care (LTC) costs, and other out-of-pocket expenses.

The good news is that premiums make up the bulk of most retirees' health expenses, and these are relatively predictable (and therefore easy to plan for).

By contrast, out-of-pocket expenses—which make up about 30% of health care spending in retirement—can vary significantly from year to year. This is especially true during the later years of retirement, since health-related issues tend to become more common with age.

Figure 5 - Where do your health care dollars go?

Estimated breakdown of health care costs throughout retirement



Source: HealthView Services, UBS.

As you work with your financial advisor to incorporate health care costs into your retirement plan, it's important to make sure you account for the full range of healthcare costs, which we review in the Appendix section of this report.

In addition to health care costs, you'll also need to account for the potential of needing long-term care at some point in the future. Since Medicare doesn't cover the vast majority of LTC expenses, we recommend that health care and long-term care be handled separately in the planning process. For more information, please see "Long-term care costs and solutions."

Summary and next steps

- SECURE 2.0 Act reminders:
  - ◻ If you're turning age 73 this year, work with your financial advisor to determine how and when you will take your first required minimum distribution (RMD).
  - ◻ The SECURE 2.0 Act also expanded the IRA charitable distributions to allow for a one-time election to transfer assets via a QCD to a charitable gift annuity (CGA), charitable remainder unitrust (CRUT), or a charitable remainder annuity trust (CRAT).[2] This one-time election for QCDs to split-interest entity is limited to $54,000 per individual (up from $53,000 in 2024).
  - ◻ If QCDs are part of your giving strategy, revisit the amount of these distributions to make sure you're taking advantage of the higher limit this year.
  - ◻ If you're concerned about overfunding a 529 plan, ask your financial advisor about the various options you may have for leftover 529 assets.
  - ◻ Reach out to your employer to see if they have plans to implement any of the voluntary provisions, such as the option to offer matching contributions on a Roth basis or the provision to help you save for retirement if you're paying off student loan debt.
- To prepare for potentially higher income taxes in the future, use our Savings waterfall worksheet to help spread your assets across various tax treatments. And consider taking advantage of lower-than-normal income tax years by implementing partial Roth conversions, transferring a portion of your Traditional IRA/401(k) to a Roth IRA/401(k).[3]
- Holding the bulk of your wealth in tax-deferred accounts could create a "tax time bomb" for your retirement years, when you will be taxed on distributions from those accounts. Instead of sticking to the minimum distributions required by the government, we recommend working with your financial advisor and your tax advisor on a strategy that maximizes your after-tax wealth potential.
- Revisit your estate plan to make sure you're taking advantage of the historically high lifetime gift and estate tax exemption limits.

- Talk to your financial advisor about when you plan to claim Social Security. A smart claiming strategy can help to protect against the risk of outliving your savings, boost resilience against higher inflation, and increase the growth potential of your overall portfolio. You can also enhance the value of your Social Security strategy by staging when you and your spouse claim your benefits. See "Social Security's spousal and survivor benefits" for details.
- If you're looking to retire before you become eligible for Medicare (age 65), health care costs can have a significant impact on how much you will need to have saved for retirement. However, the earlier you estimate the costs, the easier it will be to save for them. For more information, please see "Planning for healthcare costs in early retirement."
- As you prepare for your health care costs in 2025, be sure to account for the full range of potential health care costs, including Medicare Parts A, B, C, and D (see Appendix 1 for more details).

Endnotes

[1] It's important to note that QCDs are only an option if you are at least age 70 1/2, can generally only be done with Traditional IRA assets, and they cannot exceed the annual limit (USD 105,000 in 2024). Another limitation is that, if you are also planning to make deductible contributions to your IRA during any tax year beginning with the year you turn age 70 1/2, that deductible contribution may reduce the portion of QCDs that you're able to exclude from future taxes.

[2] There are restrictions on the type of CRUTs and CRATs that can receive a QCD. For instance, they must be funded exclusively by the QCD.

[3] Not all 401(k) providers allow participants to implement an in-plan Roth conversion. If they do not, you may need to consider rolling your 401(k) into an IRA (if you are eligible) in order to implement the Roth conversion. Please refer to the UBS IRA Rollover Guide, available here, for key considerations prior to deciding whether to roll your 401(k) to an IRA.

Appendix 1: Medicare

Medicare Part A covers stays in nursing facilities and hospitals beginning at age 65 and is free if the retiree paid the Federal Insurance Contributions Act (FICA) tax for 40 quarters. While premiums are free for some retirees, they are still responsible for copayments and deductibles.

The first 60 days of a hospital stay are fully reimbursed after a $1,676 deductible; the next 30 days have $419 of coinsurance per day of each benefit period, and an $838 charge is levied for every "lifetime reserve day" after day 90 for each benefit period (up to 60 days over your lifetime). Beyond the lifetime reserve days, you pay all costs. All in, a three-month stay in a nursing facility or hospital can cost $14,246 in out-of-pocket expenses for those enrolled in premium-free Medicare Part A.

Medicare Part B generally covers 80% of the Medicare-approved amounts for covered outpatient care costs, such as doctor visits and diagnostic tests, after the $257 deductible is met. The standard Part B premium amount is $185 per month. If your modified adjusted gross income (MAGI) as reported on your IRS tax return from two years ago is above a certain amount, you'll pay the standard premium amount as well as an income-related monthly adjustment amount (IRMAA). The late-enrollment penalty for Part B is added to one's monthly premium and can increase by as much as 10% of the standard premium for every year the beneficiary could have been signed up for Part B but failed to do so.

Medicare Part D covers prescription drugs and can be obtained by purchasing a Medicare prescription drug plan or by getting a Medicare Advantage Plan through a health maintenance organization (HMO) or preferred provider organization (PPO) that offers prescription drug coverage. Deductibles vary between plans, but no Medicare drug plan may have a deductible more than $590.

After you reach your deductible (if your plan has a deductible), you'll pay 25% of the costs as coinsurance for your covered drugs until your out-of-pocket (OOP) spending on covered Part D drugs reaches $2,000 in 2025. Then, you'll automatically get "catastrophic coverage," in which you won't have to pay OOP for covered Part D drugs for the rest of the calendar year.

Part D premiums can also vary based on the plan you choose. Additionally, if your MAGI is above a certain amount, you are required to pay the Part D IRMAA, even if your employer or a third party (like a retirement system or teachers' union) pays for your Part D plan premiums.

The late-enrollment penalty for Part D is added to your monthly premium and is calculated by multiplying 1% of the "national base beneficiary premium" ($36.78 in 2025) by the number of full, uncovered months one was eligible to enroll in Part D and went without other creditable prescription drug coverage. The national base beneficiary premium can fluctuate each year, so the penalty may also change each year.

Outside the Medicare program, **Medigap** policies are **supplemental insurance policies** sold by private companies and help pay for expenses not covered by Medicare, such as copayments and coinsurance. **Medicare Advantage** (also known as **Part C**) is another way to get Medicare, separate from Original Medicare. These bundled plans can include extra benefits that Original Medicare doesn't cover, such as vision and dental. For more information, see "Medicare & You 2025."

Part B and D premiums are subject to an income-related monthly adjustment amount (IRMAA)

Based on modified adjusted gross income (MAGI) from two years prior. Part B and Part D premiums (in $) are paid by each spouse.

Income in 2023 (2024 tax return)		2025 Part B premiums		2025 Part D premiums
Individual tax return	**Joint tax return**	**IRMAA**	**Total monthly premium**	**Total monthly premium (plan premium + IRMAA)**
0 to 106,000	0 to 212,000	0.00	185.00	your plan premium
106,000 to 133,000	212,000 to 266,000	74.00	259.00	your plan premium + 13.70
133,000 to 167,000	266,000 to 334,000	185.00	370.00	your plan premium + 35.30
167,000 to 200,000	334,000 to 400,000	295.80	480.80	your plan premium + 57.00
200,000 to 500,000	400,000 to 750,000	406.90	591.90	your plan premium + 78.60
500,000 and above	750,000 and above	443.90	628.90	your plan premium + 85.80

Source: CMS, UBS.

Appendix 2: Summary of key 2025 tax information

Taxable income tax rates

Marginal tax rate	Single	Head of Household	Married Filing Jointly	Married Filing Separately
10%	$0 to $11,925	$0 to $17,000	$0 to $23,850	$0 to $11,925
12%	$11,925 to $48,475	$17,000 to $64,850	$23,850 to $96,950	$11,925 to $48,475
22%	$48,475 to $103,350	$64,850 to $103,350	$96,950 to $206,700	$48,475 to $103,350
24%	$103,350 to $197,300	$103,350 to $197,300	$206,700 to $394,600	$103,350 to $197,300
32%	$197,300 to $250,525	$197,300 to $250,500	$394,600 to $501,050	$197,300 to $250,525
35%	$250,525 to $626,350	$250,500 to $626,350	$501,050 to $751,600	$250,525 to $375,800
37%	$626,350 or more	$626,350 or more	$751,600 or more	$375,800 or more
	Single	**Head of Household**	**Married Filing Jointly**	**Married Filing Separately**
Standard deduction*	$15,000	$22,500	$30,000	$15,000
Change from 2024	(up from $14,600)	(up from $21,900)	(up from $29,200)	(up from $14,600)

* For single or head of household taxpayers, the annual standard deduction is increased by $2,000 if you are age 65 or older or blind ($4,000 if both 65+ and blind). For married taxpayers, the deduction is increased by $1,600 for each married taxpayer aged 65 or older or blind (e.g. $3,200 if one spouse is both 65+ and blind).

Long-term capital gains tax rates

Maximum tax rate	Single	Head of Household	Married Filing Jointly	Married Filing Separately
0%	$0 to $48,350	$0 to $64,750	$0 to $96,700	$0 to $48,350
15%	$48,350 to $533,400	$64,750 to $566,700	$96,700 to $600,050	$48,350 to $300,000
20%	$533,400 or more	$566,700 or more	$600,050 or more	$300,000 or more
3.8% surtax**	$200,000	$200,000	$250,000	$125,000

** Some of your investment income may be subject to a 3.8% surtax. The tax is applied to the lesser of: 1) Your net investment income or 2) The amount that your modified adjusted gross income exceeds these thresholds. Net investment income includes "passive" sources of income such as taxable interest, dividends, realized capital gains, annuities, royalties, and rental income.

Additional Medicare tax

Tax rate	Single	Head of Household	Married Filing Jointly	Married Filing Separately
0.9%	$200,000	$200,000	$250,000	$125,000

Note: The 0.9% surtax applies to wages, railroad retirement compensation, and self-employment income over these thresholds.

Social Security

Wage base limit	$176,100
Change from 2024	(up from $168,600)
Earnings test exemption (below Full Retirement Age)	$23,400
Change from 2024	(up from $22,320)
Earnings test exemption (at Full Retirement Age)	$62,160
Change from 2024	(up from $59,520)

Note: The Old-Age, Survivors, and Disability Insurance (OASDI) tax—commonly called "the Social Security tax"—is based on a worker's earned income. This 12.4% tax (6.2% paid by the employee, 6.2% paid by the employer) only applies to earned income up to the "wage base". There is also a Medicare withholding tax of 2.9% (1.45% paid by the employee, 1.45% paid by the employer)—this tax applies to all earned income (no wage base limit).

Note: For workers receiving Social Security benefits before reaching full retirement age, Social Security applies a "retirement earnings test" and withhold benefits based on "excessive" income in the years leading up to full retirement age. The test only counts earned income, not "passive" income sources such as capital gains, dividends, interest income, or retirement plan distributions.

For individuals younger than their full retirement age, Social Security withholds $1 for every $2 of income exceeding the exemption amount. For individuals attaining full retirement age in the year of the earnings test, Social Security withholds $1 for every $3 of income exceeding the exemption amount.

Gift and estate tax

	Unmarried	Married
Gift tax annual exclusion	$19,000 per recipient	$38,000 per recipient
Change from 2024	(up from $18,000)	(up from $36,000)
Lifetime unified gift and estate tax exemption	$13,990,000	$27,980,000
Change from 2024	(up from $13,610,000)	(up from $27,220,000)
Maximum federal gift/estate tax rate	40%	40%

Note: Families should think beyond the federal estate tax when considering estate planning. According to research from the Tax Foundation, 17 states currently impose a state-level estate or inheritance tax (including Maryland, which imposes both types of tax). The top state-level estate tax rate is 20%, and state-level taxes can affect estates as small as $1 million.

Source: IRS, Tax Foundation, UBS

Appendix

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Version D/2024. CIO82652744