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MONEY AT WORK

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Social Security Tax Limit for 2025

The Social Security tax, withheld from each paycheck, stops once your income reaches a certain amount. That is due to the Social Security tax limit or "wage base," which is the maximum amount of earnings subject to Social Security tax.

These taxes fund the Social Security program, which provides retirement, disability, and survivor benefits to eligible recipients.

Last fall, along with a 2.5% cost-of-living (COLA) increase, the Social Security Administration (SSA) announced a 4.4% increase in the tax limit for 2025, leading to higher taxes for some wealthy taxpayers this year.

2025 Social Security Tax Limit Increase

For 2025, the Social Security tax limit is $176,100. (Last year, the tax limit was $168,600.) So, if you earned more than $168,600 this past year, you didn't have to pay the Social Security payroll tax on the amount that exceeds that limit.) That can result in considerable tax savings for those who earn more than the wage base.

As hard as it may be, don't let headlines impair your ability to make smart financial decisions. Don't panic and begin taking your benefits too early. Claiming benefits before full retirement age results in a permanent reduction in benefits by as much as 30%.

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Let's calculate the savings for someone whose salary exceeds the limit by $10,000 for 2025.

Salary: $176,100 + $10,000 = $186,100

Without the wage base limit, the tax would be about $11,538 (186,100 x 6.2%).

With the wage base limit, the tax would be about $10,918. (Tax on wage base: $176,100 x 6.2% = $10,918.20).

Savings calculation:

Savings = $11,538.20 (tax without limit) - $10,918.20 (tax with limit) = $620

So, an employee whose salary exceeds the Social Security tax limit by $10,000 would save $620 in Social Security taxes this year.

On the other hand, someone who earns wages exceeding the base by $30,000 would receive a $1,860 tax break. (The more you make over the tax limit, the more your Social Security tax savings.)

Note: This savings applies only to the Social Security portion of FICA taxes. The employee would still pay the 1.45% Medicare tax on their entire salary, as there is no wage base limit for Medicare taxes.

Also, for high-income earners, there's an additional Medicare tax of 0.9% on earnings above $200,000 for single filers or $250,000 for married couples filing jointly.

However, the Social Security tax limit increases yearly as the national average wage index increases. When that happens, almost every year, more income is subject to the Social Security tax.

How much are Social Security Taxes?

The tax rate for an employee's portion of the Social Security tax is 6.2%.

-Your employer also pays 6.2% on any taxable wages.

-Self-employed individuals pay the full 12.4%. However, it's worth noting if you're self-employed, you can deduct the employer-equivalent portion of that amount.

Over the past five years or so, the Social Security tax limit has increased by an average of about $3,960 a year.

However, for 2025, the tax limit went from $168,600 to $176,100, an increase of $7,500 from the previous year. That is significantly less than the $13,200 increase from 2022 to 2023 — the largest recorded increase.

As a result, the maximum Social Security tax jumped from about $10,918 to $10,453.

So, people making over $176,100 in 2025 will pay about $465 more in Social Security taxes this year than they would have paid if the tax limit remained at $168,600.

COLA Increase for Social Security

Along with the wage tax base rate, the SSA announced the 2025 Social Security COLA increase. As Kiplinger reported, more than 66 million retirees receiving Social Security checks will see their monthly government payments rise 2.5% this year.

On average, according to the SSA, Social Security retirement monthly benefits for about 68 million people are expected to grow by more than $50 beginning January 2025.

Who is Exempt From Social Security Tax?

Some people don't have to pay Social Security taxes. (Exemptions from Social Security taxes may be available if certain requirements are met.) Some examples are listed below, although other exemptions may be available.

-Certain members of religious groups or organizations

-Students and certain young (minor) workers

-Employees of foreign governments

-People the IRS considers to be "Non-resident aliens"

Tax Limit for 2026?

Each year, the Board of Trustees for the Social Security Trust Fund publishes a report on the financial status of the Social Security program. The latest report provides tax limit projections through 2033.

Interestingly, the board initially projected that the 2025 tax limit would rise to $174,900. However, as Kiplinger reported, the official announcement of the 2025 limit put the number at $176,100.

The projected tax limit for 2026 is $181,800. Stay tuned to see if that holds.

10 Ways Retirees Can Manage Income Distribution

Managing income distribution in retirement is essential to ensure your savings meet your current needs, last throughout your lifetime and minimize tax liabilities. With thoughtful planning, retirees can maximize their income and the longevity of their retirement.

Here are some actionable approaches to help you make the most of your nest egg.

1. Adopt a Dynamic Withdrawal Strategy

The traditional 4% rule — a fixed annual withdrawal rate — may not suit everyone, particularly in volatile markets. A dynamic withdrawal strategy adjusts spending based on portfolio performance, allowing retirees to preserve wealth during market downturns and enjoy more leeway in spending during strong years.

Consider the case of Emily. Her retirement begins with $500,000 in savings. In a year with strong market growth, she increases her withdrawal by 5%, taking out $21,000 instead of $20,000. Conversely, in a year of market losses, she scales back to $18,500 to protect her portfolio. Think of dynamic strategies like guardrails that help foster sustainability by linking spending to financial performance.

2. Sequence Withdrawals to Minimize Taxes

The order in which you withdraw funds from your various retirement accounts — called withdrawal sequencing — is the cornerstone of tax-efficient income planning. This approach not only influences the taxes you pay throughout retirement but also affects how long your savings will last.

We recommend focusing on optimizing your current, potentially reduced tax rate by balancing withdrawals from taxable, tax-deferred and tax-free accounts. Taking advantage of today's lower tax brackets can help reduce your overall lifetime tax burden and preserve more wealth for your heirs. Here's a breakdown of the sequencing approach we advise for withdrawals in retirement:

Withdraw from taxable accounts first. Start with taxable accounts. This reduces exposure to capital gains taxes and decreases your current tax liability while allowing tax-deferred accounts to continue compounding without triggering immediate tax consequences.

Tax-deferred accounts next. Carefully plan withdrawals from tax-deferred accounts, such as traditional IRAs or 401(k) s, to take advantage of your current tax rate. Doing so earlier — before required minimum distributions (RMDs) begin at age 73 —can prevent larger tax bills later and minimize the impact of deferring funds to potentially higher future tax brackets.

Tax-free accounts last. Save Roth IRA withdrawals for last to maximize their tax-free growth. These funds can act as a safety net for unexpected expenses or be used strategically to offset taxable income, preventing higher tax rates or Medicare premium surcharges.

3. Take Advantage of Roth Conversions

Converting funds from a traditional IRA to a Roth IRA can be a smart move, allowing you to pay taxes on the converted amount now in exchange for tax-free withdrawals in the future. It's the difference between paying taxes on the seed of your income or the harvest of it. Remember, taxes are (more than likely) going to increase as time goes on. This approach is particularly advantageous during low-income years, when the tax rates on the conversion may be lower than in future years, especially if you expect to be in a higher tax bracket later.

For example, Michael, in a low tax bracket, converts $50,000 from his traditional IRA to a Roth IRA, paying taxes at his current rate. This reduces his future required minimum distributions and provides him with tax-free income later. By taking advantage of favorable tax conditions now, Roth conversions can help retirees reduce future tax liabilities and enhance financial flexibility.

4. Leverage Qualified Charitable Distributions (QCDs)

Qualified charitable distributions (QCDs) are a powerful strategy for retirees who are 70½ or older, offering a way to make tax-free gifts to charities directly from an IRA while satisfying required minimum distributions. Unlike standard withdrawals, QCDs are excluded from taxable income, making them an excellent option for those looking to support causes they care about while minimizing their tax burden.

A QCD allows IRA owners to transfer up to $105,000 annually directly to a qualified charity. This transfer counts toward the RMD for the year but does not increase taxable income. By reducing adjusted gross income (AGI), QCDs can also help lower the impact of other taxes, such as those on Social Security benefits or Medicare premiums.

5. Refine the Bucket Strategy for Practical Use

The bucket strategy offers retirees a simple yet effective framework for managing their assets by dividing them into segments based on when the funds will be needed. By aligning investments with specific time horizons, this approach balances immediate liquidity needs with long-term growth potential, providing both stability during retirement. Here's how to make it work for you:

-Assess time horizons. Identify short-term (one to three years), medium-term (four to 10 years) and long-term (10+ years) financial needs.

-Allocate funds. Divide assets into buckets: cash/short-term bonds for Bucket 1, balanced investments for Bucket 2 and equities for Bucket 3.

-Monitor and adjust. Review and rebalance buckets annually, transferring gains during strong markets and adjusting for changing needs.

-Withdraw strategically. Use Bucket 1 for monthly income, replenish it from Bucket 2 as needed, and let Bucket 3 grow for the long term.

6. Delay Social Security Benefits

Delaying Social Security benefits past your full retirement age increases monthly payments by 8% annually until age 70. This is a reliable way to boost guaranteed income.

Let's take a look at an example. Say a retiree named Tom claims Social Security at 70, receiving $3,100 monthly instead of $2,400 at 66. Over the next 20 years, this decision adds nearly $170,000 in benefits, excluding cost-of-living adjustments. For retirees with other income sources, delaying Social Security can enhance lifetime payouts.

7. Manage RMDs Proactively

Required minimum distributions (RMDs) begin at age 73 for most retirees and can significantly impact taxes, potentially pushing you into a higher tax bracket. Strategic planning before RMDs are required can help reduce this tax burden and keep more of your savings intact. Here's what we suggest:

Withdraw early. Begin IRA/401(k) withdrawals in your 60s to spread taxable income over more years and avoid large RMDs later. Withdraw just enough to stay in your current tax bracket.

Roth conversions. Convert small amounts to a Roth IRA during low-income years to reduce future RMDs. Spread conversions over several years to avoid high taxes on large conversions.

Use QCDs. Donate up to $105,000 annually from your IRA after age 70½ to satisfy RMDs tax-free. Direct QCDs to charities you already support to reduce taxable income.

Diversify accounts. Maintain Roth, traditional and taxable accounts to manage withdrawals flexibly. Build Roth and taxable savings early for more options in retirement.

Consider annuities. Use an annuity to defer RMDs on up to $200,000 until age 85 through a qualified longevity annuity contract, or QLAC. Only choose annuities if you value guaranteed income and can part with funds for the long term. We'll discuss this point more in the next section.

8. Explore Annuities for Guaranteed Income

Annuities offer predictable income, making them a valuable tool for retirees seeking stability. Immediate annuities start payments right away, while deferred annuities begin at a future date, often at higher payout rates. These can supplement Social Security, covering essential expenses or filling gaps in income. Here's how you can make the most of annuities in your retirement income and distribution strategy:

Match income to expenses. Use annuities to cover essential expenses, such as housing or health care, ensuring stable cash flow for critical needs.

Keep funds flexible. Avoid over-investing in annuities. Maintain a portion of your savings in accessible accounts for emergencies or growth opportunities.

Shop smart. Compare fees, payout rates and terms from multiple providers to get the best value.

Defer strategically. Consider deferred annuities or qualified longevity annuity contracts (QLACs) to secure higher payouts and delay RMDs on up to $200,000.

By carefully integrating annuities into your retirement plan, you can create a reliable income stream while preserving the flexibility to adapt to future needs, striking a balance between financial security and long-term growth potential.

9. Proactively Manage Health Care Expenses

Health care costs, including premiums, deductibles and long-term care, are among the most significant expenses retirees face. Planning ahead can help mitigate these expenses and preserve your retirement savings for other needs.

Health savings accounts (HSAs). If you're enrolled in a high-deductible health plan, maximize contributions to your HSA during your working years. These funds grow tax-free, and withdrawals for qualified medical expenses in retirement are also tax-free. Use HSA funds for Medicare premiums, dental care or other eligible costs to reduce the strain on your budget.

Long-term care insurance. Consider purchasing a long-term care insurance policy in your 50s or early 60s. This helps cover costs for nursing homes, assisted living or in-home care, which are not typically covered by Medicare. Look for hybrid policies that combine long-term care coverage with life insurance for added flexibility.

Budget for out-of-pocket costs. Set aside a portion of your retirement savings to cover out-of-pocket medical expenses, which can average hundreds of thousands of dollars over a lifetime.

10. Stay Flexible and Reassess Annually

Circumstances change, and so do your financial needs and tax regulations, making an annual review of your retirement strategy essential. Checking in on your income, expenses and any new developments in tax laws ensures your plan adapts to life's changes and keeps you on track. Use these practical steps to stay on track annually.

Set a review date. Schedule a specific time each year, such as January, to evaluate your plan.

Compare income and expenses. Check whether your withdrawals align with your spending and adjust if needed.

Monitor tax changes. Stay informed about tax law updates that may affect your distributions.

Consult tools or experts. Use online retirement calculators or consult tax resources to refine your approach.

The Bottom Line

Effective income distribution in retirement isn't just about the numbers, but rather aligning financial decisions with your lifestyle goals. By combining dynamic withdrawals, tax-efficient strategies and thoughtful planning, retirees can ensure their savings last, providing financial confidence and security for years to come.

The Seven Key Milestone Ages in Retirement

These seven milestone ages mark your eligibility for significant retirement benefits, including catch-up contributions and required actions, such as taking RMDs at age 73.

1. Age 50. You can make catch-up contributions to your retirement accounts

Why make so-called catch-up contributions? If a job loss or another life event caused you to dip into retirement savings, you took time off to be a caregiver, your previous earnings were insufficient or your anticipated income needs in retirement have increased, you may want to make catch-up contributions. And these contributions could also lower your taxable income and potentially reduce your overall tax liability.

Age 50+ catch-up contribution limits 2024

401(k), 403(b), SARSEP and 457 (b) and SIMPLE 401(k) catch-up amounts. For 2024, the standard annual deferral limit for 401(k), 403(b), SARSEP and 457 (b) plans is $23,000, and the catch-up contribution limit for those age 50 and older is $7,500. That means an active participant 50 or older can contribute up to $30,500 this year.

IRA catch-up amounts. You can make catch-up contributions to your traditional or Roth IRA up to $1,000. Catch-up contributions to an IRA are due by the due date of your tax return, not including extensions.

SIMPLE plan catch-up amounts. The catch-up contribution limit for employees 50 and over who participate in SIMPLE 401(k) plans remains $3,500 for 2024. So the total you can contribute is $19,500 in 2024 if you are older than 50.

Starting in 2025, higher 401(k) catch-up contribution limits for those aged 60-63. If you're 60, 61, 62, or 63 in 2025, you can use this new rule to increase your 401(k) savings for retirement. For 2025, the catch-up limit for those aged 50 and over is $7,500 and the higher catch-up contribution limit for those age 60-63 is $11,250.

The new catch-up contribution limit in 2025 for SIMPLE IRAs will increase to the greater of $5,000 or 150% of the regular age 50 catch-up contribution limit for SIMPLE IRA plans. This supersized catch-up contribution is $5,250 for 2025, for a contribution total limit of $21,750, which still lags behind 401(k) limits. Cost of living adjustments to the catch-up limit will begin in 2026.

To qualify for the super catch-up contributions, you must meet specific criteria: be 60, 61, 62, or 63 on December of the calendar year and generally, have already contributed the maximum deferral amount. Once you turn 64, your contributions revert to the standard age 50+ catch-up limit.

2. Age 59-1/2. No More Early Withdrawal Penalty for Retirement Account Distributions

The 59-1/2 rule imposes a 10% penalty on early IRA or 401(k) withdrawals made before you reach age 59-1/2. There are some hardship exemptions from the rule and you can learn more about them on the IRS web site.

There is one way around this rule, you can take substantially equal periodic payments (SEPP) and not be subject to additional penalties. This option would work well for someone planning to retire early. It is not without risk. Once made, you are basically locked into this choice. Modifying your payment schedule could trigger the 10% penalty, for violating the 59-1/2 rule, and a recapture tax.

Roth IRA accounts are different. You can withdraw your contributions (but not your earnings) at any time, without taxes or penalties and unlike traditional IRAs, Roth IRAs aren't subject to RMDs during the owner's lifetime.

After age 59-1/2, if the account has been open for at least 5 years, you can withdraw both contributions and earnings tax-free and penalty-free. However, if you withdraw your earnings before the age of 59-1/2 or before the account has been left open for 5 years, you may owe income taxes and a 10% penalty.

3. Age 62. You Are Eligible to Collect Social Security. Should you?

This is the earliest age you can begin receiving a benefit, but only a reduced amount. Claiming Social Security before your full retirement age (FRA) will reduce your benefits by almost 30%, says the Social Security Administration.

Age isn't the only factor in determining when you should take Social Security. Your health, financial need, desire to leave work, current need for more money and concerns about solvency of the Social Security trust find are among the reason some may decide to take a reduced benefit at 62.

Benefits are reduced by 5/9 of 1% for each month before your FRA, up to 36 months. If the number of reduction months exceeds 36, then your benefit is further reduced 5/12 of one percent per month.

You can substantially boost your Social Security check by delaying collection of your benefits. You can also wait as late as age 70 to start collecting Social Security benefits and earn delayed retirement credits for every month after you wait after your FRA. You can increase your benefits anywhere from 24% to 32%, depending on your FRA, by waiting until 70 to collect benefits.

The Social Security website has a calculator you can use to estimate the impact of early and delayed retirement.

4. Age 65. You are eligible for Medicare

Be careful not to overlook your Medicare eligibility. If you decide to delay your benefits until after age 65, you should still apply for Medicare benefits within three months of your 65th birthday. When you turn 65, your initial enrollment period lasts for seven months, beginning three months before you turn 65.

If you wait longer, your Part B Medicare medical insurance and Part D prescription drug coverage may cost you more money. Even if you can buy employer-provided insurance, you can enroll while working when you turn 65.

Automatic enrollment in Medicare. When you apply for retirement or disability benefits from Social Security (or the Railroad Retirement Board), it also serves as your application for Medicare. If you are approved for benefits, you'll automatically get Part A coverage once you're eligible for Medicare.

And if you're getting benefits at least 4 months before you turn 65, you'll automatically get Part A coverage and also be signed up for Part B. Because you pay a monthly premium for Part B coverage, you can choose whether to keep it or not.

When you have employer coverage at 65 and after. You can wait until you (or your spouse) stop working, or lose your health insurance, to sign up for Medicare Part B Medical Insurance, and you won't pay a late enrollment penalty.

Once you stop working, or lose your health insurance, you have an eight month Special Enrollment Period (SEP) when you can sign up for Medicare. The SEP starts when you stop working, or lose insurance, even if you choose COBRA or other coverage that's not Medicare..

This SEP qualifies you to delay enrolling in Medicare Part B without having to wait for a General Enrollment Period (GEP) and paying the penalty for late enrollment.

For free, one-on-one help including: choosing a plan, reviewing coverage or understanding costs, contact your local State Health Insurance Assistance Program (SHIP) for free, unbiased assistance.

5. Age 66-67. You Have Reached Your Full Retirement Age (FRA) for Social Security

Your full retirement age is the age at which you become eligible for full benefits, without any reductions.

Your full retirement age depends on the year you were born.

-Born between 1943 and 1954, your FRA is 66

-Born in 1955, your FRA is 66 and two months

-Born in 1956 and 1959, your FRA is 66 and four months

-Born in 1957, your FRA is 66 and six months

-Born in 1958, your FRA is 66 and eight months

-Born in 1959, your FRA is 66 and ten months

-Born in 1960 or after, your FRA is 67.

6. Age 70. You Are Eligible to Collect Your Maximum Social Security Benefit

If you've waited until 70 to collect Social Security, you'll now collect the biggest monthly benefit possible. This amount is anywhere from 54% to 62% more than if you had started collecting your benefit at 62. How is that the case? Well, as discussed above, you'll lose almost 30% of your benefit if you collect at age 62. If you wait until age 70, you get any payments for delayed retirement credits that can increase a check by 24% to 32%, depending on your FRA.

7. Age 73. You Must Begin Your Required Minimum Distributions or Face Penalties

You've reached the peak of the retirement savings mountain and descending to the distribution phase. At age 73, you are bound to begin taking required minimum distributions (RMD) from your IRAs and employer retirement plans or face some hefty penalties.

The distributions will vary from year to year based on the value of the accounts and your age. Next you'll have to decide whether to invest, spend or donate the RMD income.

The Bottom Line

By tracking your pre-retirement and retirement milestones, you can maximize your savings by taking advantage of catch-up contributions and avoid extra charges by applying for Medicare when you are eligible. Mark these seven important milestones on your calendar, so you remain aware of all of your opportunities and obligation as they arise.

Gifting Earlier Rather Than Later Can Reap Big Tax Benefits

In 2017, Congress passed the Tax Cuts and Jobs Act (TCJA), which implemented numerous changes to our tax system affecting both individuals and corporations.

Notably, the federal lifetime gift and estate tax exemption increased from $5.49 million to $11.18 million per person in 2018 (it's $13.99 million in 2025). This significant change created many planning opportunities for high-net-worth individuals and families. However, the TCJA passed through the budget reconciliation process, and as a result, many of the changes are set to expire, or "sunset," on December 31, 2025.

Absent action from Congress to extend the expiring TCJA provisions, the federal gift and estate tax exemption will be reduced from $13.99 million to $5 million, indexed for inflation (projected to be about $7 million per person).

President-elect Donald Trump campaigned to extend the various tax cuts passed in 2017, and with a Republican-controlled Congress, he may be able to fulfill that promise. A simple majority of both chambers will be required to pass tax legislation through another budget reconciliation bill. While Republicans have the majority, we will have to wait and see what legislation is introduced and whether it has majority support.

Planning Opportunities While We Wait

If individuals have the assets to do so and are comfortable making gifts that will use up their remaining exemption, they need not wait to see what happens with the TCJA in the new year. Lifetime gifting is impactful because the asset that is gifted is removed from the donor's estate and all future appreciation on that asset grows outside of the estate, so gifting earlier rather than later can reap big benefits from a tax perspective.

Furthermore, due to the "anti-clawback regulations" passed in 2019, those who take advantage of the full exemption amount now will not face repercussions if the exemption does sunset. These regulations provide that a decedent's estate tax liability will be computed based on the exemption amount at the time a completed lifetime gift was made rather than the exemption amount at the time of death. This means that the 74% of private business owners with the desire and ability to make lifetime gifts and maximize their available exemption before the sunset should seriously consider doing so.

However, the tax tail should not wag the dog. There are many other important things to consider before making a lifetime gift. First, individuals should work with their advisers to ensure making a gift to use their remaining exemption will not negatively impact their personal financial picture. Financial planning software can be a useful tool to project future expenses — both anticipated and unexpected — and can help determine how much they can afford to give away while maintaining their lifestyle.

Second, donors should consider the impact of the gift on the recipient and whether they have hopes, expectations or concerns that might influence how they make the gift. Taxable gifts (those that will use the donor's available exemption) may be made outright, in trust or a combination of the two. Trusts are often a preferred vehicle for those looking to make larger gifts because of the management, oversight and creditor protection provided by a trust as opposed to an outright gift.

Deciding What to Give

If individuals are ready to move forward with making a gift, they will need to work with their advisers to determine what to give. Gifts may be made using cash, stock or complex assets, such as an interest in a privately held business or real estate. Determining what to gift depends on several factors, including the donor's liquidity, the need for particular assets in the future, the willingness to give up control and income tax considerations. There are benefits and drawbacks to each, so it is important to walk through all available options with your adviser.

Those who are not yet ready to commit to a gift can certainly wait until we get closer to the sunset deadline and have a better idea of where things stand — but there are steps even those on the fence can take now to avoid a mad rush next year. If the gift will be made to an existing trust, donors should review the terms of that trust and confirm that it is the proper entity to receive the gift. If a new trust is created, individuals should engage their attorney now to begin the drafting process and ensure they have enough time to finalize the documents and get accounts open before making a gift.

Individuals should also work with their advisers to develop a plan of how the gift will be made (e.g., cash, stock or another asset), confirm whether an appraisal will be required and begin to consider how the gift will be communicated to the beneficiary.

Things to Consider After the Sun Has Set

People who are looking to reduce their estate tax exposure after exhausting their lifetime exemption still have plenty of opportunities to do so. Planning techniques such as grantor retained annuity trusts (GRATs), sales to grantor trusts, intrafamily loans and charitable gifts do not count against the gift and estate tax exemption and can be useful in removing assets from an estate. In addition, individuals may make annual gifts ($18,000 per recipient in 2024 and $19,000 in 2025) and pay tuition and/or medical expenses on behalf of anyone (so long as payments are made directly to the institution) without incurring a gift tax.

Even those who have completed their gifting may not be done yet. If trusts were created, they should discuss a plan for trustee succession and consider drafting a side letter of intentions to guide trustees regarding discretionary distributions. They should also revisit their basic estate plan (wills and revocable trusts) to confirm that it is still aligned with their wishes. Finally, individuals should continue the work of communicating their estate plan to their loved ones — as well as the values that informed the plan — to help prevent unwanted surprises in the future.

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