Trust *NEWS*

F&M BANK™
Division of CBI Bank & Trust

A newsletter for customers and friends of F&M Bank Spring 2025

The Versatile Roth IRA

Used with care, the Roth IRA may help serve several objectives at once — like a multipurpose tool in your financial-planning toolbox.

Retirement

First and foremost, a Roth IRA is designed to provide tax-free income in retirement. If your modified adjusted gross income (MAGI) falls within certain limits, you can contribute up to $7,000 ($8,000 for those age 50 or older) in earned income to a Roth IRA in 2024 and 2025. Although Roth IRA contributions are not tax-deductible, qualified withdrawals are tax-free. A qualified withdrawal is one made after the account has been held for at least five years and the account owner reaches age 59½, becomes disabled, or dies. Nonqualified withdrawals of earnings are subject to ordinary income taxes and a 10% penalty, unless an exception applies.

2025 Income Limits for Roth Contributions

Filing status	Contribution limited if MAGI is:	No contribution allowed if MAGI is:
Single/Head of household	$150,000 to $164,999	$165,000 or more
Married filing jointly	$236,000 to $245,999	$246,000 or more
Married filing separately	$0 to $9,999	$10,000 or more

Source: IRS

Emergency savings

Because contributions to a Roth IRA are made on an after-tax basis, they can be withdrawn at any time — which means, in a money crunch, you could withdraw just your Roth contributions (not the earnings) free of taxes and penalties. In addition, account holders may withdraw up to $1,000 in earnings each year to cover emergency expenses.[1]

College and first home

Roth IRA earnings can be withdrawn penalty-free to provide funds for college and the purchase of a first home.

College. Roth IRA funds can help pay for certain undergraduate and graduate costs for yourself or a qualified family member. Expenses include tuition, housing and food (if the student attends at least half time), fees, books, supplies, and required equipment not covered by other tax-free sources, such as scholarships or employer education benefits. An advantage of using a Roth IRA to help pay for college is that assets held in retirement accounts are excluded from the government's financial-aid formula. (A related point: up to $35,000 in 529 plan assets that are not used to pay for college may be rolled over to a Roth IRA for the same beneficiary, provided certain rules are followed.)

First home purchase. Up to $10,000 (lifetime limit) can be used for qualified expenses associated with a first-time home purchase. You are considered a first-time home buyer if you haven't owned or had interest in a home during the previous two years. Funds may be used for acquisition, construction, or a reconstruction of a principal residence and must be used within 120 days of the distribution. If the account has been held for at least five years, the distribution will be income tax-free as well.

Estate planning

Roth IRAs are not subject to the age-based required minimum distribution rules that apply to non-Roth retirement accounts during your lifetime. For this reason, if you don't need your Roth IRA funds, they can continue to accumulate. After your death, the tax-free income benefit continues to apply to your beneficiaries (however, the value of your Roth IRA will be assessed for federal and possibly state estate tax purposes).

Proceed with caution

Although it's generally best to avoid tapping money earmarked for retirement early, the Roth IRA can help serve multiple needs — if used wisely.

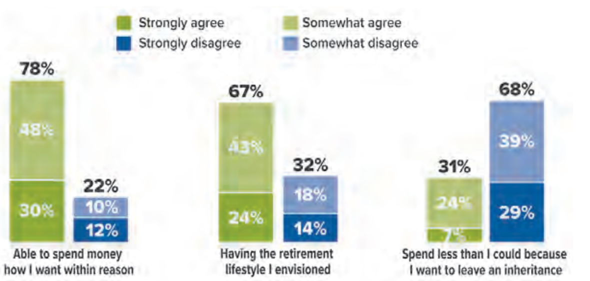
The tax implications of a 529 savings plan should be discussed with your legal and/or tax professional because they can vary from state to state. Also be aware that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers. These other state benefits may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, can be obtained by contacting your financial professional. You should read these materials carefully before investing.

1) Due to ordering rules, Roth IRA contributions will always be distributed before earnings.

Enjoying Retirement Despite the Costs

In a 2024 survey, about half of retirees said that retirement costs were higher than they expected, but a large majority were enjoying the lifestyle they imagined (at least to some degree) and spending what they wanted within reason. Less than a third were holding back on spending to leave an inheritance.

Source: Employee Benefit Research Institute, 2024 (Totals may not add up to 100% due to rounding.)



Accounts for Two: A Team Approach to Retirement Savings

Almost half of U.S. families headed by a married couple include two working spouses.[1] 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

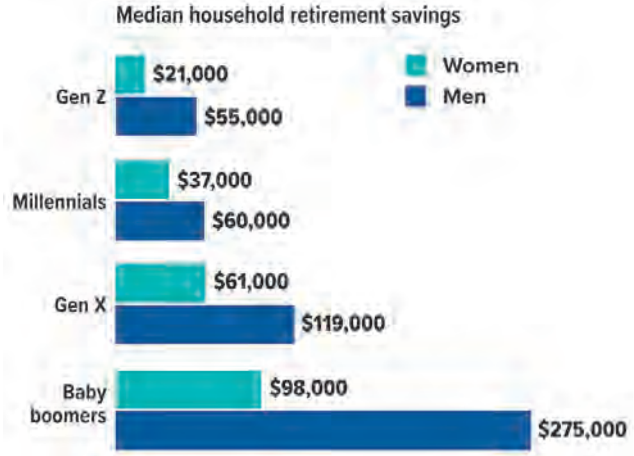
Tax-deferred retirement accounts such as 401(k)s, 403(b)s, and IRAs can be held in only one person's name. (A spouse is required to be the beneficiary of a 401(k), and to some extent, a 403(b), unless the spouse signs a written waiver.) Taxable investment accounts, on the other hand, may be held jointly.

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.

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)

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.

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 t he 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)

The Markets
As of March 21, 2025

Wall Street saw a weekly gain for the first time in four weeks. Fed forecasts of two more interest rate cuts this year (see below) helped renew investor confidence. Each of the benchmark indexes closed higher last week, led by the Dow, which gained over 1.0%. All 11 of the S&P market sectors advanced, led by financials, health care, industrials, and information technology. Bond values rose higher, dragging yields to their lowest levels in more than two weeks. Despite ticking lower at the end of the week, gold prices rose over 1.2%. Considered a safe-haven asset, gold prices have enjoyed 16 record highs this year, reaching an all-time peak of $3,057.21 per ounce on Thursday. Since January 2024, the price of gold has risen 45.0%, or about $1,000.00 per ounce.

Stocks rose higher last Monday for the second straight session. The Russell 2000 gained 1.2% to lead the benchmark indexes listed here. The Global Dow rose 1.1%, the Dow climbed 0.9%, the S&P 500 added 0.6%, and the NASDAQ advanced 0.3%. Yields on 10-year Treasuries ticked up to 4.30%. Crude oil prices gained 0.5% to settle at $67.51 per barrel. The dollar declined, while gold prices reached a record high after climbing to $3,008.70 per ounce.

A selloff in tech stocks dragged the markets lower last Tuesday. The NASDAQ fell 1.7%, and the S&P 500 declined 1.1%. The small caps of the Russell 2000 lost 0.9%, and the Dow dropped 0.6%. The Global Dow eked out a 0.2% gain. The crude oil price rally ended last Tuesday as prices fell 1.0% to $66.92 per barrel. Yields on 10-year Treasuries dipped to 4.28%. The dollar index fell 0.1%, while gold prices continued to surge, gaining 1.2% to reach a new record high.

Wall Street rebounded last Wednesday after the Federal Reserve projected two more rate cuts later this year. Tech shares reversed the prior day's losses, driving the NASDAQ up 1.4%. The Russell 2000, an index driven, in part, by changing economic conditions, led the benchmark indexes listed here, gaining 1.6%. The S&P 500 rose 1.1%, the Dow climbed 0.9%, and the Global Dow edged up 0.5%. Gold prices moved higher, reaching another record after gaining 0.5%. Ten-year Treasury yields fell to 4.25%. Crude oil prices rose to $67.25 per barrel. The dollar gained 0.3% against a basket of currencies.

Last Wednesday's Fed-driven rally ended quickly on Thursday as investors reassessed the potential for rising inflation and an economic slowdown. The Russell 2000 lost 0.6%, followed by the Global Dow (-0.4%), the NASDAQ (-0.3%), and the S&P 500 (-0.2%). The Dow was essentially unchanged. Ten-year Treasury yields dipped to 4.23%. Crude oil prices advanced for the third session of the week, settling at about $68.30 per barrel. The dollar and gold prices each gained 0.4%.

Stocks closed mostly higher last Friday after President Trump suggested that he is willing to consider some flexibility on tariffs. The NASDAQ rose 0.5%, while the Dow and the S&P 500 each gained 0.1%. The Russell 2000 and the Global Dow each retreated 0.6% and 0.3%, respectively. Yields on 10-year Treasuries inched up to 4.25%. Crude oil prices rose 0.3%. The dollar index gained 0.3%, while gold prices fell 0.5%.

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

Contact a Trust Department Staff Member at F&M Bank

As estate planning and investment management can be complex and influenced by a number of factors, we like to start with a personal appointment where we get to know you and your needs. Contact any of the F&M Bank Department staff members to arrange an appointment today.

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