

WEALTH MANAGEMENT

A D V I S O R

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What new tax legislation means for individuals

The One Big Beautiful Bill Act (OBBBA), signed by President Trump on July 4, 2025, contains a variety of changes to tax law. In addition to extending or making permanent many of the federal tax provisions in 2017's Tax Cuts and Jobs Act (TCJA), it introduces some new tax breaks — and eliminates others.

TCJA EXTENSIONS

As expected, the OBBBA makes permanent individual tax rates (10%, 12%, 22%, 24%, 32%, 35% and 37%) that have been in effect since 2018. It also makes permanent the near doubling of the standard deduction. For 2025, the standard deduction increases to \$15,750 for single

filers, \$23,625 for heads of households and \$31,500 for joint filers. The deduction will be indexed to inflation in subsequent years. Further, the personal exemption has been permanently eliminated.

The federal gift and estate tax exclusion amount has been increased to \$15 million for individuals and \$30 million for married couples beginning in 2026, with annual inflation adjustments. In addition, the child tax credit, which currently enables eligible taxpayers to reduce their taxable income by \$2,000 for each child under age 17, increases to \$2,200 for 2025. It too will be indexed to inflation starting in 2026.

Other TCJA provisions now made permanent include eliminating miscellaneous itemized deductions (except for unreimbursed educator expenses) and the moving expense deduction (with exceptions for military and intelligence community members and their families). The OBBBA also limits the personal casualty deduction to losses from federally declared and some state-declared disasters.

SALT AND OTHER HOMEOWNER DEDUCTIONS

One of the more controversial OBBBA negotiations among legislators was over the state and local tax (SALT) deduction cap. For 2025 through 2029, the OBBBA increases the SALT deduction limit to \$40,000 with 1% annual inflation adjustments (subject to income-based phaseouts). However, starting in 2030, the \$40,000 cap will return to \$10,000.

The OBBBA permanently reduces the mortgage debt limit for the home mortgage interest deduction to \$750,000 (\$375,000 for separate filers). But the deduction includes mortgage insurance premiums as deductible interest. The deduction for interest on home equity debt is also made permanent.

NEW PROVISIONS

As promised during Trump's campaign, the law provides a tax



break for some tip and overtime income. For 2025 to 2028, eligible tip earners can deduct up to \$25,000. Individuals may be able to deduct up to \$12,500 for qualified overtime pay. For both tip and overtime income, payroll taxes and income phaseouts apply.

Also new for 2025 through 2028 is an above-the-line deduction of up to \$10,000 for qualified vehicle loan interest. Final assembly must take place in the United States, and income-based phaseouts are in effect. And the OBBBA creates a permanent charitable contribution deduction for non-itemizers of up to \$1,000 for single filers (\$2,000 for joint filers), beginning in 2026.

Another new tax break provides seniors with a bonus tax deduction. For 2025 through 2028, eligible taxpayers age 65 or older can deduct an additional \$6,000.

CLEAN ENERGY BREAKS ELIMINATED

If you've been holding off on buying an electric vehicle or making energy-efficient home improvements, you'll probably want to accelerate your timeline. Tax credits for purchasing clean vehicles expire after September 30, 2025. Credits for making energy-saving home improvements expire after 2025.

Similar tax breaks for businesses have been eliminated, too. For example, companies can't claim the qualified commercial clean vehicle credit for vehicles acquired after September 30, 2025, and the Sec. 179D deduction for energy-efficient commercial buildings is terminated for property construction that starts after June 30, 2026.

A WIDE-RANGING LAW

The wide-ranging OBBBA contains other changes, including to eligibility rules and deduction limits. If you're unsure about how the new law may impact you, contact your financial advisor.

Avoid these 7 retirement investing mistakes

Employer-sponsored retirement plans — such as 401(k), 403(b) and 457 plans — are among the most effective savings vehicles available. Unfortunately, it's all too easy for investors to make missteps that substantially reduce their balances. Here are seven common mistakes to avoid.

1. Choosing the wrong plan. In recent years, many workplace plans have allowed participants to choose between traditional and Roth options, or even to split their contributions between



them. Contributions to traditional accounts are pre-tax (tax-deductible), but withdrawals are taxable. Roth plans accept after-tax

(nondeductible) contributions, but qualified withdrawals are tax-free.

Which option or combination is right for you depends on your financial circumstances. For example, if you're in a high tax bracket and expect to be in a lower bracket in retirement, the upfront tax savings generated by deductible contributions may outweigh the benefits of tax-free withdrawals in retirement.

2. Passing up matching funds. Many organizations with retirement

plans provide matching funds as an incentive to contribute. A common approach is to match 50% of your contributions up to 6% of your salary. For example, if your salary is \$200,000 and you contribute 6% (\$12,000) to the plan, your employer would chip in another \$6,000. This is essentially free money, which you'll leave on the table if you don't contribute enough to maximize your employer's match.

3. Departing before vesting.

Depending on the terms of your plan, matching contributions may be subject to a vesting schedule. You may need to work for your employer for a specified period before you can keep the matching contributions. It's critical, therefore, to understand your plan's vesting policy. Keep in mind that your contributions always

vest immediately. (See "Changing jobs? Weigh your retirement plan options" below.)

4. Forgetting to review allocations. You should regularly monitor your investments to ensure the asset mix aligns with your risk profile, time horizon and financial needs. For instance, when you're in your 20s or 30s, you might invest most of your funds in riskier, growth-oriented assets, such as stocks. As you approach retirement, however, you might gradually shift your investments into less risky assets, such as bonds. One option is to invest in target date funds, which automatically adjust the level of risk over time.



Be sure to review the asset allocation in your account regularly and rebalance it if necessary. Say your retirement funds are invested 60% in stocks and 40% in bonds. If stocks outperform bonds for an extended period, the allocation may shift to, say, 70% stocks and 30% bonds. At that point, you should rebalance your investments to achieve your desired allocation and risk level.

5. Reviewing too often. As much as it's a mistake to forget about your investments, there's also risk in reviewing them too frequently. Checking your account balance every day can create anxiety, particularly during periods of market volatility. Such anxiety may tempt you to reduce or even stop contributing. But saving for retirement is a long-term endeavor. To increase your chances of reaching your goals, it's important to stick with your plan, even if your account loses some value in the short term.

CHANGING JOBS? WEIGH YOUR RETIREMENT PLAN OPTIONS

If you're changing jobs, you'll need to decide what to do about your former employer's retirement plan. Generally, unless your account balance is less than \$7,000, you'll be able to leave funds in the old plan. Alternatively, you can:

- Roll the funds over into an IRA,
- Roll the funds over into your new employer's plan (if the plan allows it), or

- Withdraw the funds, subject to tax and, if you're under 59½, a 10% penalty.

To determine the best course, compare the plan's investment options and fees with those available through an IRA or your new employer's plan. Keep in mind that funds in a qualified employer plan often enjoy greater protection against creditors' claims than funds in an IRA. However, an IRA may offer greater control over the timing of distributions.

6. Overlooking fees. Because you don't write a check for management fees, it's easy to overlook them. But fees erode the returns your investments earn over time, so paying attention to your plan's annual fee disclosure statement is important. If your plan's fees are high, consider investing the minimum amount to qualify for the full employer match

and investing other funds in a lower-cost IRA.

7. Withdrawing funds early. Only withdraw funds from your retirement account before you reach age 59½ in an emergency. In most cases, early withdrawals will trigger a 10% penalty on top of income tax. Some plans offer loans or hardship withdrawals, but you should try to avoid taking even

these options. They may generate fees, plus you'll lose out on returns the funds would have earned if you hadn't withdrawn them.

With some research and careful planning, you can avoid common retirement plan mistakes. To help maximize your chances of a secure retirement, discuss your goals, timeline and risk tolerance with a professional advisor.

Wealth replacement trusts

Sophisticated — but complex — estate planning tools

A wealth replacement trust (WRT) can be paired with a charitable remainder trust (CRT) to enable individuals to support a favorite charity *and* leave a legacy to their loved ones. If you're in the process of establishing an estate plan — or already have one — you might want to consider including a WRT.

A BIT ABOUT CRTS

WRTs are generally adopted by higher net-worth individuals and established by contributing assets to a CRT. The CRT's regular income stream, in turn, is transferred to a WRT. The WRT then purchases a life insurance policy that will eventually benefit those named by the owner. When you die, or the second of you and your spouse dies, the CRT's assets pass to the

charity you've selected. At the same time, your insurance proceeds are paid to your WRT, which distributes the funds to your beneficiaries or uses them on behalf of your trust's beneficiaries.

In a typical CRT arrangement, you contribute securities or other assets to the trust. Then the trust pays you (or you and your spouse) an income stream for life — usually a fixed percentage of the trust's value, recalculated annually. At the end of the trust's term, the remaining assets are distributed to the charitable beneficiaries.



CRTs offer several cash flow benefits that can be used to buy life insurance. In addition to receiving periodic income payments, your contribution to the trust generates a charitable income tax deduction equal to the present value of the charitable beneficiaries' remainder interests.



Even greater income tax savings may be available if you contribute appreciated property that would otherwise be subject to capital gains tax if sold. As a tax-exempt entity, the CRT can sell capital assets tax-free and reinvest the proceeds in income-producing assets (but you may be subject to income tax on some or all distributions).

WRT ADVANTAGES

It's possible to replace wealth with a stand-alone life insurance policy. However, setting up a WRT to hold your policy can offer benefits. For one thing, if you own the policy under your name, then the proceeds will be included in your taxable estate. This may reduce the policy's wealth replacement power. By contrast, if your policy is owned by a properly structured WRT, the death benefit bypasses your

estate (though contributions to the trust to cover premium payments are subject to gift tax). Also, using a WRT allows you to place conditions on distributions to your beneficiaries.

Note that it's possible to transfer an existing life insurance policy to a WRT, but it can be risky. So unless you're uninsurable, you're probably better off making cash gifts to a WRT to buy a new policy.

STRATEGY AT WORK

Consider the following hypothetical example: Lydia wishes to donate \$2 million to her alma mater, but she's reluctant to deprive her children of those funds. She contributes \$2 million to a CRT for the college's benefit, which invests the money in conservative income-producing investments.

Lydia also establishes a WRT, naming her children as beneficiaries. She makes cash gifts each year to the trust (financed in large part by income from her CRT). The WRT's trustee uses these gifts to purchase a \$2 million insurance policy on Lydia's life. When she dies, the CRT distributes its assets to the college and the insurance company pays the death benefit to the WRT. This money, which replaces the charitable donation, can then be used by the trustee to benefit Lydia's children.

LARGE CHARITABLE DONATIONS

With the help of an experienced estate planner, you may be able to arrange to make large charitable donations without depriving your family of its inheritance. Contact your estate planning advisor to discuss your options.

How market cap can contribute to portfolio volatility

If you invested in only large-capitalization U.S. stocks over the past couple of years, you may have seen your account balance rise precipitously. The S&P 500 index returned 26% in 2023 and almost 25% in 2024. Although the Russell 2000 index of small-cap stocks also made excellent grades in those years (19% and 13%, respectively), they weren't as astonishing. It should be said that this stock market performance is unusual by historical standards. However, a distinct divergence by market cap isn't.

Large-, small- and mid-cap stocks can perform differently in the same market conditions. It's one of the reasons investors are usually advised to diversify their investment portfolios by market cap. In other words, you'll almost certainly incur more volatility if you only buy the so-called "Magnificent 7" giant-cap tech names.

SIZING UP STOCKS

Market cap is the total dollar market value of a company's outstanding shares of stock. For example, a company with 100,000 shares selling for \$10 each has a market cap of \$1 million. A company with 10 million shares selling for \$100 each has a market cap of \$1 billion.

In general, companies with market caps greater than \$10 billion are considered large-cap. Mid-cap companies have market



caps between \$2 billion and \$10 billion, and small-cap companies have market caps under \$2 billion. Apple, the largest company in the world as measured by market cap, is worth approximately \$3 trillion. NVIDIA and Microsoft aren't far behind.

HISTORY SAYS

Historically, large-cap companies (which tend to be more mature) have offered more stable returns but limited growth potential. Small-cap companies have typically offered greater growth potential but less stability. Mid-cap companies, not surprisingly, have tended to fall somewhere in the middle.

But as the last few years have shown, some large-cap stocks are capable of enormous growth — and enormous volatility. That's at least in part because

other factors, including industry, specific company characteristics and macroeconomic forces, help determine a stock's performance. Investors don't complain when these stocks are on the upswing. But the story's usually different if all stocks in a portfolio plunge in tandem. This is when some inexperienced investors may panic-sell at a loss.

CUSTOMIZED DIVERSIFICATION

No diversification strategy can completely protect your portfolio from market volatility, including the risk of financial losses. However, diversifying across market caps, as well as by industry, style, type of security and country, can help cushion your overall portfolio from dramatic price swings. Contact your financial advisor to discuss diversification strategies customized to your particular investment goals.

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