

Financial Planning

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October 2025

In search of “The American Dream”

Investopedia, an online resource for financial education, in 2023 began measuring the financial costs associated with achieving “The American Dream.” Elements of the dream include owning a home, having a financially secure retirement, taking regular vacations, owning pets, and raising children and sending them to college. The cost data comes from government reports. The assumptions and methodology are explained in the articles.

Continued on next page

Rising cost of “The American Dream”



| | 2023 | 2024 | 2025 |
|---|---|----------------------|----------------------|
| Retirement | \$715,958 | \$1,599,995 | \$1,636,881 |
| Health care | \$934,752 | n/a | \$414,208 |
| Owning a home | \$796,998 | \$929,955 | \$957,594 |
| Raising two children and paying for college | \$576,896 (college cost separately below) | \$832,172 | \$876,092 |
| Owning a new car | \$271,330 | \$811,440 | \$900,346 |
| Yearly vacation | n/a | \$179,109 | \$180,621 |
| Pets | \$67,935 | \$36,626 | \$39,381 |
| Wedding | \$35,800 | \$44,300 | \$38,200 |
| Funeral | \$7,848 | \$8,453 | n/a |
| Hospital birth | \$5,708 | n/a | n/a |
| One year of college for two kids | \$42,080 | Included above | Included above |
| TOTAL | \$3.4 MILLION | \$4.4 MILLION | \$5.0 MILLION |

Source: <https://www.investopedia.com/2025-american-dream-costs-more-than-usd5-million-11796727>; M.A. Co.

Changes in methodologies from year to year account for some differences.

In 2023, the cost of the dream was pegged at \$3.4 million, then \$4.4 million in 2024, and \$5.0 million in 2025. The breakdown of costs for each year is shown on the table on previous page. The methodology and assumptions changed from year to year—for example, the 2023 report included just one year of college for two children and the 2024 version omitted health care costs entirely. According to the report, the average lifetime earnings of the holder of a bachelor's degree are about \$2.8 million, which suggests that achieving the American Dream apparently requires the income of two college-educated persons.

The reports are open to criticism on several fronts. For openers, the estimates are too low, because federal and state income taxes are not taken into account. All the costs are expressed as after-tax dollars, so the pre-tax financial requirement to meet them is roughly 20% greater. Basic necessities, such as food and utility costs, are not included at all. Even two incomes may not be enough to fund this aspiration.

On the other hand, the estimates may be too high, because there are many possible avenues for reducing the cost of the American Dream—buying used cars instead of new and not splurging on a wedding are the obvious examples. Do pets really have to cost tens of thousands of dollars over a lifetime? What's more, buying a home provides more than shelter, it also builds wealth. Perhaps the final value of the home should offset the costs of acquiring it?

However, the precision of the cost estimates is not important; the larger point is that all financial dreams need to be funded, and that need is likely far larger than most people recognize. Therefore, financial planning and investment management come to the fore as essential tools for long-term success. The earlier one starts that journey, the greater the chance of success. See "A short story about the long term" below for a simplified example of that truism in action.

Enter the family trust

One aspect of Investopedia's definition of the American Dream surprised us—one glaring omission. Two of the three years included funeral costs, but none of the reports mentioned leaving a bequest to heirs to put them on a sound financial footing. In our experience, providing for one's heirs, particularly for a surviving spouse, is often a major financial goal. It's more than a vague hope that something will be left for loved ones after one's death, even if no target value for the bequest has been specified.

For a surviving spouse, a marital deduction trust can provide lifetime financial security, avoid the need for a guardianship, and deliver professional investment management of assets.

A family trust may be designed to provide discretionary distributions to heirs at critical moments that will make it far easier for them to reach their own financial goals. Education support may reduce the burden of

student debt; assistance for a down payment in buying a house would reduce the size of the needed mortgage and the monthly payments; a family trust could even be tapped for family vacations, if desired by the trustor.

Recently, we heard of a man who had left his three daughters equal shares of his \$20 million estate. It was a complete surprise to them. The daughters were moderately successful, with annual family incomes in the range of \$60,000 to \$75,000. Were they thrilled to get the windfall? No, they were not. The daughters had no idea of the reality of the family's wealth and were angry to learn that their father could have been helping them through many financial struggles earlier in their lives.

One might think that the girls were better off for having to overcome adversity on their own, but there is also a balance to be struck. A thoughtfully designed trust-based wealth management plan can be a powerful tool for striking the balance and advancing the American Dream in one's family.

Take the next step

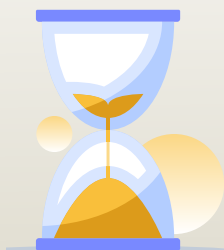
What are your financial hopes and dreams? Are you confident of success? Our trust and investment services might be an important tool for reaching your goals.

Call today to make an appointment with us, at your convenience, to discuss your needs and to learn more about how we may be of service to you and your family.

A short story about the long term

A simple parable is sometimes used to encourage employees to take full advantage of their 401(k) plan opportunities. Two friends, both 30 years old, are employed by the same company.

Faith starts making \$35 contributions to the company plan each week and continues to do



so until she leaves the company ten years later (a total contribution of \$19,200). At that time, she elects to keep her money in the plan, not withdrawing the money until 25 years later, when she reaches age 65.

Hope initially makes no contributions to the plan. However, ten years later, just

when Faith leaves the company, Hope decides to begin making contributions in the same amount (\$35). She continues to make contributions for 25 years, until she reaches age 65 (a total contribution of \$48,000).

Can you guess who has more in her retirement plan (assuming that they both earn 7% a year on their investments)? Would you be surprised to

find out that, although Faith made contributions to the plan for only ten years to Hope's 25 years, Faith has \$22,098 more in her account? Don't be. What you're seeing is the power of compound earnings. The benefit of ten extra years of tax-deferred earnings from her company retirement plan is the reason why Faith can put in less and come out with more in the end.



Tax facts for retirees

One of the frustrating aspects of planning for a financially secure retirement is that the tax rules can shift unexpectedly. Sometimes these changes are welcomed by taxpayers; sometimes not so much. One such change was included in the One Big Beautiful Bill Act signed by the President on July 4.

New deduction for seniors

An additional deduction will be available to seniors when they file their returns for tax year 2025 next spring. This change substitutes for President Trump's campaign promise to eliminate income taxes on Social Security benefits entirely. It falls short of that goal, though it will be welcomed by retirees. According to U.S. Treasury calculations, 36% of seniors were paying income tax on their Social Security benefits under the prior law, and now only 12% will be paying that tax.

The new deduction is \$6,000 per senior, so the total is \$12,000 for a retired married couple if they both meet the age requirement. However, the highest income retirees won't get this benefit. The deduction phases out for taxpayers with modified gross income greater than \$75,000 (\$150,000 for joint filers).

To be eligible to claim the extra deduction, the taxpayer must reach age 65 on or before the last day of the year. The deduction is available to both itemizing and non-itemizing taxpayers. Married couples must file jointly to claim the deduction.

Expiration date. Under the law as drafted, this tax benefit for seniors will expire on December 31, 2028. However, as we've just seen, Congress will often extend tax benefits before the expiration date arrives.

New rule for "catch-up" contributions for 401(k) plans

The basic limit for employee deferrals into a 401(k) plan in 2025 is \$23,500. Those who are age 50 and older in 2025 are permitted an additional \$7,500 deferral, for a total of \$31,000, in order to "catch up" for earlier years, to maximize the retirement nest egg. From age 60 to 63, the "catch-up" is boosted to \$11,250.

There is no change for the 2025 tax year for these deferrals, but 2026 will be a different story. Starting next year, those whose income with their employer exceeds \$145,000 will be required to make their catch-up contribution to a Roth account, with after-tax dollars. Someone in a top tax bracket who makes a maximum catch-up contribution could be looking at \$4,000 in additional income taxes on the savings. If the employer's 401(k) doesn't offer the Roth option, the highly compensated employee loses the catch-up contribution opportunity entirely.

But is going with the Roth account path such a bad deal for the future retiree? The reason Congress added this twist is to get more federal revenue sooner, at the cost of a loss of revenue outside the budget window. Distributions from that Roth account are potentially fully tax-free, in contrast to the ordinary income rates that apply to distributions from regular pre-tax accounts. What's more, Roth accounts are not subject to the Required Minimum Distribution rules (RMDs) at age 73 and up. Some retirees are able to manage their retirement cash flow without tapping into their IRAs and 401(k)s and then are disconcerted when they are forced to begin withdrawals, which may affect taxes on their Social Security benefits and the size of their Medicare premiums.

New "Trump Accounts"

Grandparents who want to help build a financial fund for grandchildren will have a new choice to consider beginning in 2026. The contribution limit for Trump Accounts will be \$5,000 per child. For children born from January 1, 2025, to December 31, 2028, the federal government will seed the account with \$1,000 to encourage maximum participation in these programs.

Investments in Trump Accounts will be limited to mutual funds or ETFs that track the S&P 500 or similar index, must have limited fees, and leverage is prohibited. When the beneficiary reaches age 18, the Trump Account converts to a traditional IRA, and the standard IRA rules then apply. Saving in a Trump Account does not foreclose the option of contributing to a 529 college savings plan, which has much higher contribution limits.

See your tax advisors to learn more about how these new tax rules may affect you and your family.

Alzheimer's and testamentary capacity

Patricia Spofford was an elderly woman in decline. In the summer of 2017, a doctor diagnosed her with cognitive impairment and recommended the appointment of a guardian and conservator. About that time, she assaulted her caregivers and was found driving erratically around town. On February 15, 2018, Patricia's doctor noted in her medical record that she displayed "significant cognitive dysfunction," and in a June 4, 2018, note she was described as "uncooperative," "not able to listen," and "aggressive and reactive."

However, Patricia had one of her better days on March 1, 2018, right in the middle of this time frame. That was the day Patricia went to her lawyer's office to execute her will. The will execution ceremony was videotaped. It showed fairly clearly that Patricia understood what she was doing, the nature of her estate, knew who her relatives were, and had definite ideas about who to include and who to exclude from her will. An affidavit from her doctor stated that he had examined Patricia on March 1, 2018, and based upon that examination and her medical history, he believed that on that day she had testamentary capacity, that she could competently make a will. The witness to the will signing testified that on that March 1, Patricia appeared "present, alert, and aware of her surroundings and actions."

After Patricia died in 2020, her sons brought an action to have the March 1 will set aside because she was at that time under a conservatorship and was not competent to make a will. The terms of the will, and whether the sons had been disinherited, were not revealed in the Court's decision. Presumably, if the will were to be set aside, the sons would inherit the entire estate by intestacy, the state-provided rules for distributing an estate when there is no valid will. The sons lost their case, because their evidence was too remote in time from the day that the will was executed. The evidence recorded on that day was persuasive. The presence of cognitive impairment, including dementia, does not automatically preclude testamentary capacity. There may be a "lucid interval" during which an impaired person is qualified to make a will. Similarly, someone under guardianship and conservatorship may nonetheless have testamentary capacity, as such persons may be entirely competent in some respects, although incompetent in others.

The Probate Court ruled against the sons, and that judgment has been affirmed [*Estate of Spofford*, 331 A.3d 406 (Me. 2025)].

Video recording of the execution of a will is unusual but has become more common in recent years, given the ubiquity of smartphones with video capability. It's an especially good idea when there is a prospect that a will might be challenged by disappointed heirs. See your estate planning advisors to learn more.

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