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New Law Tightens Up Two Social Security Loopholes

New federal legislation signed on November 2, 2015 – the Bipartisan Budget Act – effectively ends two popular Social Security planning techniques: the "file-and-suspend" strategy and the "restricted application" strategy. However, some retirees still may benefit from one or both of these for a limited time.

Other basic rules affecting Social Security retirement benefits haven't changed. So if you're preparing to retire you'll still face important decisions about applying for benefits. In particular, you'll need to determine whether you want to apply for Social Security benefits early, at full retirement age (FRA), or later.

- You're eligible for Social Security retirement benefits when you turn 62, but if you start then you'll receive less than if you delayed payments for a few years. At age 62, your benefit will be about 25% lower than it would have been if you waited until your FRA.
- If you wait until FRA to apply for benefits, you will receive 100% of the benefits to which you're entitled. The FRA varies according to your date of birth. For those born before 1943, FRA is age 65. For those born from 1943 through 1954, FRA is age 66. It gradually increases until topping out at age 67 for those born after 1959.
- Finally, you can delay the start of benefits past when you reach FRA, and that would increase your monthly payment. The longer you wait, up until you turn 70, the higher your benefit will be. (Delaying past 70 won't bump up your benefit, however.) If you were born in 1943 or later, your annual benefit amount will rise by 8% for each year beyond FRA that you wait to collect benefits.

Other special considerations may come into play for married couples. In a situation in which one spouse is entitled to a greater benefit than the other based on their respective earnings histories, the lower-earning spouse may claim "spousal benefits" providing a larger monthly payment. This wrinkle in the law for Social Security relates to these two loopholes closed by the new law:

1. File-and-suspend strategy. With this approach, the higher-earning spouse usually opts to apply for retirement benefits at FRA. That spouse then suspends payment of the benefits, as now allowed by Social Security rules, which can lead to greater future benefits. Typically, that higher-earning spouse would wait until age 70 before starting to receive benefits. In the meantime, the lower-earning spouse claims spousal benefits, which will be larger than he or she otherwise would have received.

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Should You Work Longer Or Save More For Retirement?

According to a new survey reported on by Forbes magazine, many people facing a retirement income gap have a simple solution: They plan to keep working past the traditional retirement age of 65. But that is easier said than done and often isn't the best approach.

More than 60% of the adults surveyed who expect to work beyond age 65 cited financial reasons. They point to insufficient savings and a lack of confidence in the Social Security system. But if you plan to keep plugging away at your job well into your sixties, recognize that your health, energy, and employability likely won't be as great as they are in your thirties, forties, or fifties.

Furthermore, your expectations may not be realistic. Research has shown that about half of retirees actually call it quits before age 60.

What can you do? Consider these three modest steps:

1. Develop a clear picture of your retirement income. Rely on professional assistance for an analysis of what you can reasonably count on.

2. Do more to save now. That could mean boosting your annual 401(k) or IRA contributions in lieu of buying a more expensive car or taking a nicer vacation.

3. Make retirement saving your top priority. Even if your kids will be heading off to college, retirement planning can't take a back seat.

We can help you devise a long-term plan designed to meet your goals.

Kim Scott, CFP®
Financial Advisor

5 Reasons To Amend Your Estate Plan

It's 2016...do you know where your estate plan is? If you're like most busy people, you may have made a will, perhaps when your children were born, and it's possible you've taken other steps to lay out what will happen after you're gone. But frequently those plans are just gathering dust.

Now's a good time to crack open the vault and take a closer look. Typically, your estate plan will need a minor update, and in some cases a complete overhaul may be in order. Consider these five reasons to revise your plan:

1. Family changes: Your personal situation may have shifted because of a divorce, a separation, or the death of a spouse. You might want to add or subtract beneficiaries to trusts or estates if children or grandchildren have been born since you created your estate plan or if a beneficiary has died. Or your intended heirs may have married or divorced, further complicating matters.

2. Financial changes: When you created your estate plan, you probably owned fewer assets or different assets than you have now. You may need to revise your will or trust documents, especially if the value has changed dramatically. Or perhaps you've acquired a business interest or sold one—another potentially big change to your financial status. A job loss or change also could have an impact on your plan.

3. Tax law changes: It seems like the federal estate tax law is amended every other year, so it's important to keep abreast of the latest developments. For instance, your estate plan may not reflect the ever-increasing federal estate tax exemption. The exemption, which was $650,000 a decade and a half ago, has ballooned to $5.45 million for someone who dies in 2016. Other tax law provisions, such as the "portability" of exemptions between the estates of you and your spouse, also may need to be addressed.

4. Geographic changes: If you've pulled up stakes and moved the homestead, maybe downsizing to a place in a warmer climate, this significant change also probably needs to be reflected in your estate plan—especially if you've moved to a state with substantially different tax laws.

5. Personal changes: Finally, you may have had a change of heart about beneficiaries or developed different priorities or preferences. For example, you might decide to cut a daughter-in-law or son-in-law out of your will or decide to attach conditions to particular gifts or bequests. It's your estate plan, so you can "fix" it however you like.

Of course, you don't have to undertake all of this on your own. Rely on us as well as your tax and legal advisers for guidance. ●

Retirement Plan Choices For The Self-Employed

If you are self-employed, have no employees, and have not yet started a retirement plan for yourself, you have several choices.

1. Traditional or Roth IRAs. You don't have to be self-employed to set up and contribute to these IRAs. For 2016, you can put up to $5,500 into a traditional or Roth IRA if you're under age 50. Contributions to a traditional IRA may be tax-deductible, depending on your income and whether you also contribute to a plan at work, and earnings in your account grow tax-deferred. A Roth is funded with after-tax dollars but withdrawals during retirement are normally tax-free. You can't contribute to a Roth if you're single and earn more than $117,000 in 2016 or are married and earn more than $184,000. But there are no income limits on converting a traditional IRA to a Roth; you just have to pay income tax on the amount you convert.

2. Simplified Employee Pension (SEP) IRA. If you can put more than $5,500 into a retirement plan for 2016, this may be the vehicle for you. You can put up to 25% of your self-employment income, up to a maximum of $53,000 in 2016, into a SEP. Contributions are tax-deductible and earnings grow tax-deferred.

3. SOLO 401(k). With this kind of plan, you may be able to contribute more than you can put into a SEP IRA. As an employee, you're able to contribute 100% of your earnings up to a maximum of $18,000, or $24,000 if you're 50 or older. Then, as your own employer, you can add up to 25% of your earned income—your net earnings from self-employment minus one-half of your self-employment tax and the amount you already contributed to the retirement plan—up to a maximum of $53,000 for 2016.

We can help with any of these plans. ●

Balancing The Three Big Saving Priorities

Going back to ancient times, elders preached about the wisdom of saving money. In the modern era, three primary saving objectives have emerged for most people: (1) saving for retirement; (2) saving for your children's college educations; and (3) saving for emergencies. This "big three" hasn't changed much over the past century.

But plenty of things have shifted. Few companies still provide the sort of pension plan that can ensure a comfortable retirement without eroding your current salary. The cost of higher education continues to skyrocket. And with numerous other competing interests, not to mention other rising costs, it's getting harder and harder to set aside money for a rainy day.

Nevertheless, it's important to plan ahead. That usually means setting priorities for your various saving goals and remaining committed to your plan. It also requires finding the proper balance without focusing on one objective to the exclusion of the others. Keeping that in mind, here are some practical suggestions for addressing the "big three":

1. Retirement planning: This is generally the top priority because it encompasses the most people – including those with or without children – and it is critical for virtually everyone. Just think that you're likely to live about one-quarter to one-third of your life in retirement on a fixed income. With the latest medical advances, early retirees might even live close to half of their lives in retirement!

Typically, savings will come from a variety of sources, including tax-qualified retirement plans, taxable investments, and Social Security benefits.

When possible, take advantage of employer-provided plans, like a 401(k) plan or pension plan, and IRAs. For 2015, you can defer up to $18,000 of salary to a 401(k) or $24,000 if you're age 50 or over and you may benefit from matching contributions from your employer. The limit for IRA contributions in 2015 is $5,500 or $6,500 if you're age 50 or over. With a Roth IRA, future payouts are generally tax-free.

Finally, the Social Security Administration (SSA) can project your future Social Security benefits based on your earnings history. But those benefits alone probably won't be enough to support you in retirement.

2. College planning: While retirement planning is essential, saving for college might appear even more crucial if your children are approaching the age at which they'll head off to school. Yet despite the timing – your kids' college years usually precede your retirement – don't forget that it's much easier to save while you're still in your prime earning years. Furthermore, there are a number of ways to boost your college savings funds.

One key vehicle is the Section 529 plan. Under these state-run plans, you can set aside money in an account where it's invested on a tax-deferred basis. When you withdraw funds to pay for qualified higher education expenses, the distributions are exempt from current tax. Although the details vary from state to state, the limits for contributions are generous, usually well into six figures.

Other techniques may be used alongside or even in lieu of a Section 529 plan. Those might include custodial accounts, Coverdell Education Savings Accounts (CESAs), loans, scholarships, and various types of trusts.

3. Emergency planning: This is generally the most difficult goal to achieve because, on its face, it doesn't appear as vital as the other two. Yet you should recognize the need to have cash reserves you can draw on in the event of an unexpected event such as a catastrophic medical condition or a job loss. This rainy day fund can help sustain your family in times of need. No one can foresee the future, so you need to plan for the worst and hope for the best.

The conventional thinking is to set aside enough to get you through about six months of hard times, but the exact amount will differ, depending on your personal circumstances and your ability to save. Don't try to do it all in one fell swoop. Instead, as part of a monthly budget, try to deposit a regular amount in a separate fund and add in any windfalls, such as an inheritance or an unexpected insurance check that may come your way.

Reminder: There's no need to sacrifice any one of these three goals. They are all important to your financial being, but there are times when you likely will prioritize one over the other. Strike the balance needed for your situation. ●

Show More Life With A Living Trust

In some financial circles, a revocable living trust has been touted as a staple of estate planning that can even be used to replace a legally valid will. Normally, however, a living trust is viewed as a supplement to a will, not an outright replacement. Here's how this estate-planning technique may serve you best—in life and death:

It's important to understand the basic differences between a will and a living trust. Your "last will and testament" is a legal document determining how, when, and to whom your possessions will be distributed upon your death. It doesn't have any effect until you die. However, a will normally must go through probate before distributions are made. (Property passing through joint rights of survivorship may be one exception to that rule.)

In addition, a will alone may not achieve all of your estate-planning objectives. For instance, you can't impose any conditions on gifts made through a will.

A revocable living trust also is a legally valid document, and you may be able to transfer securities, real estate, or other property to the trust, and you can give the trustee power to manage it on behalf of the designated beneficiaries. Typically, you might name yourself as both the trustee and the initial beneficiary of the trust. At the same time, you can designate other family members—say, your spouse, your children, or both—as secondary beneficiaries entitled to receive remaining assets in the trust when it terminates.

With a living trust, you'll retain a high level of control while you're alive. For instance, you may be able to sell trust assets and keep the cash, amend the terms of the trust (for example, by changing secondary beneficiaries), or revoke it entirely. Unlike a will, a living trust allows you to place restrictions on gifts to beneficiaries. The trust becomes irrevocable when you die.

The main advantage living trusts have over wills is that the property transferred to the trust doesn't have to go through probate. Depending on the state in which you live, probate can be time-consuming. In addition, unlike a will, a living trust isn't available to public inspection, ensuring complete privacy with respect to the assets it holds and distributes.

But don't assume that a living trust is a panacea. It will require some time and work on your part to make all of the necessary arrangements. Also, if you devise a "pour-over will" to catch assets not in the living trust, the will must be probated anyway. Finally, despite some claims to the contrary, there are no estate-tax benefits for property transferred to a living trust.

Clearly, a living trust may provide valuable benefits, but it usually works best hand in hand with your will. We can help you work with your attorneys to find a solution that works for you. ●

Social Security Loopholes

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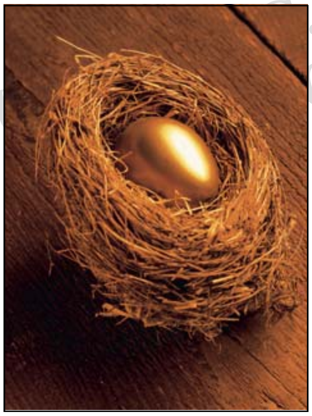
Under the new law, the file-and-suspend strategy won't be available beginning April 30, 2016, six months from the date of enactment. If you suspend your benefits, your spouse won't be entitled to the higher spousal benefit. However, if you're already using file-and-suspend, you're "grandfathered in" under the new law. In addition, you still can benefit from this technique if you qualify and apply for benefits before May 1, 2016.

2. Restricted application strategy. The new law also effectively ends the restricted application strategy, sometimes called "claim now, claim more later." Here, a spouse who is approaching FRA and is eligible for benefits on his or her own behalf *and* for spousal benefits files a restricted application to receive spousal benefits only. That spouse then waits until later—typically until age 70—to apply for benefits based on his or her own earnings record. This approach enables the spouse to build up more Social Security credits.



The new law eliminates the option of filing a restricted application for spousal benefits only. If you will turn age 62 after 2015, you must claim all of your benefits upon filing, based on whichever will give you a higher payment—your own earnings history or the spousal benefit. However, if you turned 62 before January 1, 2016, you still can use the restricted application strategy when you reach FRA.

The new law closes two loopholes that had been able to generate thousands of dollars in extra retirement benefits for some couples. But there still will be room for decisions that could boost your Social Security benefits. For example, it may be advantageous to delay benefits until you're past FRA, even without the file-and-suspend strategy. We would be glad to assist you in deciding how to proceed. ●

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