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Guide...Protect...Preserve

Social Security Payout Choices Can Be Confusing

Social Security may make up only a small part of your expected retirement income, but it can be a crucial part, perhaps covering a significant portion of your basic expenses. Figuring out what you'll actually receive, however, can be complicated, and you'll have to choose from among many variables that could make a big difference in the amount of monthly income for you and your spouse. Understanding Social Security's complex rules needs to be an essential part of your retirement planning.

Social Security retirement benefits are generally based on your lifetime earnings and your age when you request the benefits. If you opt to start getting a monthly check at age 62, the earliest possibility, you'll receive less than you would if you started receiving benefits at your full retirement age—between ages 65 to 67, depending on the year you were born. Full retirement age for baby boomers born from 1943 through 1955 is 66.

How much you'll lose by beginning benefits at age 62 ranges between 20% and 30%, again depending on when you were born. For example, the reduction for someone born in 1950 is 25%. So if you would be entitled to a $2,500 monthly benefit at age 66, you would receive only $1,875 if you retired at age 62. The later you were born, the steeper the reduction, which peaks at 30% for those born after 1959.

There's an additional incentive for postponing benefits even longer. If you wait until age 70 to begin taking Social Security, you'll receive a significantly higher monthly amount—an extra 8% for each year you delay benefits—than if you had started at full retirement age. For someone born in 1953, for example, waiting those four extra years, from age 66 to age 70, could add more than 34% to the monthly benefit.

Things get really tricky when you try to figure out Social Security retirement benefits for a married couple. Each spouse is entitled to a benefit based on his or her own earning history and the age at which benefits begin. But if a wife, for example, has earned considerably less than her husband has, her benefit at full retirement age will be the greater of her own benefit or a spousal benefit that could be as much as half of her husband's benefit.

Other complications may arise if one spouse continues to work. If the low-earning spouse works past full retirement age while the other spouse has retired, also at full retirement age, the working spouse can begin receiving the 50% spousal benefit. Then, when the working spouse reaches age 70, he or she can claim increased benefits in lieu of the spousal benefit.

Though the Social Security Administration sends you an updated estimate each year of what your future benefits may be, that's unlikely to answer all of your questions. Here are

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Find Welcome Tax Reprieve For Capital Gains And Dividends

Thanks to the Tax Relief, Unemployment Insurance Reauthorization and Jobs Creation Act of 2010, investors can rest a little easier. The new law extends favorable tax rates for long-term capital gains and dividends. But the reprieve is only temporary.

For several years, the maximum capital gains tax rate for profits on the sale of securities held longer than a year has been 15% (and there has been no tax on gains for taxpayers in the lowest tax brackets). But that rate had been scheduled to increase to 20% (10% for low-income investors) in 2011. The 2010 Tax Relief Act preserves most existing tax rates, including the lower rate for long-term capital gains, through 2012. That gives you a window for selling assets that have racked up big gains. (You're allowed to repurchase favorite holdings after a 30-day hiatus.)

Note that even high-income investors may benefit from the 0% rate if a portion of their capital gain income falls below the tax bracket thresholds.

Similarly, the current 15% tax rate for most dividends from U.S. companies is preserved through 2012. Without the new legislation, dividends would have been taxed at ordinary income tax rates that were also scheduled to rise, to as high as 39.6%.

It's seldom a good idea to let tax considerations dictate investment strategy, but we can help you consider how to make the most of these temporary tax breaks during the next two years.

Mary Jane Callaghan & Mitch Glicksman

Paying Estate Taxes Over 14 Years

After a one-year repeal, the federal estate tax was reinstated in 2011 under the 2010 Tax Relief Act. The favorable provisions are generally scheduled to "sunset" after 2012. So estate planning remains a prime concern for many business owners and others wealthy enough to be hit by the tax. One way to reduce the impact on your family is to stretch out any tax payments over a long period. Installments may be extended for as long as 14 years if business interests comprise the bulk of your net worth.

Normally, estate tax must be paid within nine months of the estate owner’s death. However, if the estate qualifies, its executor can make a special election to stretch out annual payments for 10 years following a deferral period of five years. So it would mean the estate’s beneficiaries could take as long as 15 years to pay the estate bill in full. Technically, the maximum deferral period is 14 years, because of the way payments must be structured.

This tax deferral is available only if the estate includes a farm or closely held business whose value exceeds 35% of the value of the “adjusted gross estate.” That’s defined as the gross estate value minus any expenses, debts, and losses. A “closely held business” may include any of the following:

- An interest in a sole proprietorship
- An interest in a partnership if 20% or more of the total capital interest in the partnership is included in the gross estate, or if the partnership had 45 or fewer partners.

- Stock ownership in a corporation if 20% or more of the value of the voting stock is included in the gross estate or if the corporation had 45 or fewer shareholders.

Note that the estate tax deferral applies only to the closely held business interests. For example, if those business interests represent 50% of the gross estate, half of the estate tax may be spread out over that 14-year period. The other half must be paid within nine months of the estate owner’s death.

If your heirs qualify to extend estate tax payments and decide to take advantage, they’ll owe interest annually on the unpaid portion of the tax. However, the estate is required to pay only 2% interest on the amount attributable to the first $1 million (adjusted for inflation) of the taxable value of the business interest. For 2011, the adjusted figure is $1,360,000. The normal IRS interest rate for tax underpayments applies to amounts above that threshold.

There may be additional methods that could actually limit the estate tax on family business or farm assets. For example, heirs who agree to keep those assets in the family may be able to reduce the taxable amount of the estate. But this is a complex area of tax law. We can work with you and your attorney to make sure any tax breaks and extension of tax payments are handled properly. ●

7 Reasons To Update Your Financial Plan

Have you developed a comprehensive financial plan? Even if you have, it may need additional attention. Consider these seven reasons to revisit your plan.

1. Keep on track for meeting goals. While having a plan is an important first step, success will depend on staying focused on what’s needed to meet the plan’s objectives. A review shows how you’re progressing and what your next action items need to be.

2. Reflect major “life events.” If something significant has happened—you’ve gotten married or divorced or changed jobs, for example, or you have a new child or grandchild—you may want to consider changes to your financial plan. You’ll also need to think about revising beneficiary designations for retirement plans, IRAs, and insurance policies. A review of your estate planning documents and reassessment of insurance needs is also in order.

3. Take the latest tax legislation into account. State and federal tax laws are in constant flux, and it’s crucial that your plan reflect recent changes—such as the new estate tax law that provides a larger individual exemption and could require adjustments in the language of your will or any trusts you may have.

4. Re-think your risk tolerance. The stock market continues to be volatile, and a mix of investments that seemed comfortable before may not fit your current needs and risk tolerance. Be sure your portfolio reflects your current risk tolerance.

5. Tighten your budget due to a job loss or reduction in compensation. Not having your normal (or prior) income will throw any plan out of whack. You’ll likely need to reexamine your priorities and look for ways to cut back on spending, particularly for major purchases that you had planned to make. Unexpected

Your Estate Is About More Than Money

Estate planning often seems to be all about numbers. Maybe you start by figuring out what you have, what it's currently worth, and what its value is projected to be in the future. Then you decide how you want to slice up the pie for your heirs while forfeiting as little as possible in estate taxes. The emphasis is normally on maximizing the tax benefits available under federal and state laws. But the real goal of this process is to establish your legacy and help your family. When you look beyond the numbers, estate planning is all about people.

Part of our job as financial advisors is to help people discover what they hope to accomplish with the wealth they've built. That may involve looking back on your own life and thinking about what you've learned. What were your biggest successes and failures? What are your aspirations for your children, and what are their own goals that you could help them achieve?

Taking the time to reflect upon your personal history may pay off in ways you didn't expect. You may remember a formative episode or period in your life that taught you something that could be valuable to your children, and there might be an opportunity for your estate plan to incorporate those insights. In one case, a parent wanted to leave assets in a trust to pay for the higher education of his children. But as he talked about his objectives with his advisor, he realized that most of his real education had come from life, rather than from what he absorbed in college classrooms. So the advisor worked with the man's attorney to revise the terms of the trust so that it could finance similar experiences for his children.

In another instance, an entrepreneur confided how she had struggled for years before finally achieving success with a business venture. As a parent, she wanted to instill the same entrepreneurial spirit in her own children. Her advisors helped her devise an estate plan that would enable her children to take sensible business risks without jeopardizing their inheritances.

In brainstorming to uncover your own estate planning priorities, you might want to explore questions such as these.

- What was your first job? What lessons did it teach you that have stuck with you through the years? And what was your most successful job? What did you learn from it?
- If you're married, how did you meet your spouse? How has your marriage enriched your life?
- If you're divorced, what lessons, personal or financial, did the breakdown of your marriage provide? In retrospect, were there things you could have done differently?
- If you have children, think about who they are and how they've changed as you have watched them grow up. What are their qualities you like the most? What things about them do you wish were different?
- What values and principles would you pass on to your children if you could? Why are those things important to you? How might they make a difference in the future happiness of your kids?
- What circumstances led to your current financial status? Did you work your way up the corporate ladder? Are you an entrepreneur? Did you inherit a large amount of money?
- What is your greatest financial success? How did you achieve it? And what has been your greatest failure? What do you wish you had done differently?
- What is the smartest financial decision you ever made? What factors—your education, your work experience, things you learned from your parents, other relatives, or friends—put you in a position to make the right choice. What has been your worst decision?
- Where does philanthropy rank on your list of priorities? What organizations or institutions do you routinely support, either with financial gifts or by serving as a volunteer? Do you hope to leave a charitable legacy?
- What religion or spiritual tradition, if any, do you practice? How have your raised your children? How important is religion or spiritual tradition to your family?
- What is your educational background? What opportunities have you given your children? Do you want to help your children and other heirs pay for their schooling?

Answering these and similar questions may suggest ways in which your estate plan could support your heirs in their quests for fulfilling, meaningful lives. And while it's important to structure your estate to minimize taxes, other goals are just as crucial. We can work with you and your attorney to create or revise a plan that addresses your priorities. ●

medical expenses could also require belt-tightening.

6. Utilize new sources of income. On the other hand, if you've landed a high-paying job, sold a business, or come into an inheritance, you may be able to save more for retirement or your children's education or set aside cash for a memorable vacation.

7. Review options as retirement nears. If you're retiring soon, it's a good idea to review your financial plan and make sure you're on track for a secure retirement. We can project your annual retirement income and adjust your portfolio risk as you enter your golden years.

How often should you review your plan? While your investment portfolio should be reviewed at least once a year, your financial plan can be reviewed every two to three years to keep it on track. If you're nearing retirement or facing major life events, an annual review is best. If your plan is out of date or if it's been a while since your last review, please give us a call. ●

Student Loan Reform Buried In Health Law

What does 2010's landmark health care reform law have to do with student loans for your children about to enter college? Plenty. The Health Care Reconciliation and Education Act of 2010—signed in tandem with the massive Patient Protection and Affordable Care Act—overhauls the nation's student loan program. The new legislation could affect your family for years to come.

What's more, the changes aren't limited to low-income families, although bigger benefits will be available to some cash-strapped families. Many reforms apply to all students, whatever their families' financial situation.

The biggest change is in the way student loans are made and administered. Under the old rules, private banks did the lending, with loans guaranteed by the federal government. That meant you had to pick and choose among private lenders. Now, the government itself will originate student loans.

The loans will generally look the same to borrowers—with no differences in terms, fees, or interest rates—but the process should be simpler. Students can apply for loans by going directly to a college's financial aid office. Each school will work in conjunction with private companies approved by the government to disperse loan funds.

Even better, repayment terms for students will eventually improve. For loans obtained after July 1, 2014, monthly loan payments won't be allowed to exceed 10% of a borrower's monthly discretionary income. The current maximum is 15%. The U.S. predicts that more than 1.2 million borrowers will benefit from this change, which will mean a $110 payment reduction each month on a typical loan for a borrower who earns $30,000 a year and owes $20,000.

Moreover, remaining loan balances after 20 years will be forgiven, an improvement on the old rules' 25-year period. For students who are "public servants"—teachers, nurses, or member of the armed forces—the maximum repayment period is reduced to 10 years. But the new provisions aren't retroactive and don't apply to private bank loans.

Some changes under the new law are designed to alleviate economic hardship. For instance, the amount of financial aid available under the federal Pell grant program has been expanded. A student's eligibility for these grants, which aren't repaid, is determined by household income, and beginning in 2013, increases in the maximum Pell grant will be pegged to changes in the Consumer Price Index (CPI).

The new health care legislation, combined with education tax credits that are being expanded to a larger segment of the population, will provide much-needed relief to middle-income families facing the ever-increasing costs of higher education. ●

Choices Can Be Confusing

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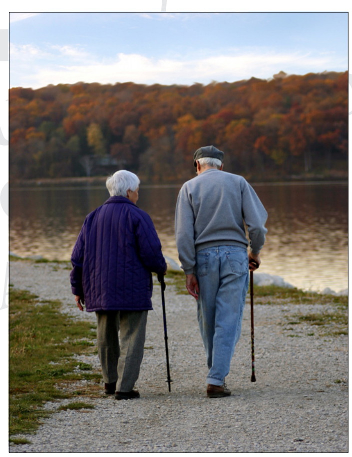
two hypothetical examples illustrating strategies that might maximize a couple's total benefits. The first involves something known as the 62/70 split. Suppose that a husband's full retirement benefit is $2,150 a month and the full benefit for his wife, who's the same age, is $1,080. If she begins taking benefits at age 62, she'll receive a reduced amount—$720 a month. But if her husband delays his claim until age 70, he'll collect $3,300. If he dies at 82, his monthly benefit will have grown to $4,600, and that becomes the wife's survivor benefit—almost 90% more than she would receive if her husband had also begun taking benefits at age 62.

But could this couple do even better? Suppose that the husband applied at age 66 for a spousal benefit based on his wife's earnings record, letting his own benefit continue to grow. Because he has reached his full retirement age, the husband qualifies for the maximum spousal benefit of $540 a month—half of the wife's $1,080 benefit. When he reaches age 70, he can drop the spousal benefit and begin collecting his own much larger benefit.



Beyond studying your annual benefits statement from the government, you can visit www.ssa.gov for a wealth of additional information as well as online calculators that can help you estimate your benefits under different scenarios. But as you weigh your choices, you may also want to factor in other factors, including your health, your life expectancy, your need for cash during retirement, and the retirement lifestyle you're planning. We can help you consider the role Social Security may play for you and work with you to make informed decisions about your government benefits. ●

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