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For Couples: Key Social Security Benefit Rules

When you retire, you're entitled to receive Social Security benefits after paying into the system during all of your working years. But the Social Security Administration (SSA) won't start sending you checks automatically. You must apply for benefits. What's more, you'll likely face some difficult choices, especially if you're married. Consider these common scenarios:

Single-Income Couples

If your family has depended on a sole breadwinner, the spouse who didn't have annual earnings is eligible for retirement benefits when the working spouse claims retirement benefits, or to get survivor benefits when the working spouse dies. (The working spouse doesn't get survivor benefits at the death of the spouse who didn't work.)

Two key rules may affect the decisions about Social Security of single-income couples:

- If the working spouse delays retirement benefits past full retirement age (FRA), up to age 70, both the retirement benefits and the potential survivor benefits will increase. By the same token, if the working spouse claims early benefits, starting at age 62, both retirement benefits and potential survivor benefits will be reduced permanently.
- A nonworking spouse can't claim spousal retirement benefits until the working spouse claims retirement benefits. However, under a special rule, a working spouse can claim retirement benefits at FRA while the nonworking spouse begins spousal benefits at age 62. Then the working spouse can suspend benefits until reaching age 70. During this time, the potential survivor benefits of the nonworking spouse keep growing.

Dual-Income Couples

Typically, as a married couple nears FRA, the earnings records of both spouses may affect the Social Security retirement benefits each of them will receive. Each spouse could claim spousal benefits based on the other spouse's earnings history, as well as a survivor benefit when the other spouse dies.

Either spouse can begin taking retirement benefits as early as age 62. And once one spouse begins receiving Social Security payments, the other can start receiving spousal benefits at age 62, or survivor benefits if the other spouse dies, beginning as early as age 60.

There's one guiding principle to keep in mind as you navigate these complicated rules: You can claim only one kind of Social Security benefit at a time. Usually, that simply means claiming the highest benefit available to you, but that's not always the best choice.

Generally, if one spouse has earned significantly less than the other spouse, the lower-earning spouse could decide to forgo his or her own benefits and instead

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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.

Add To Your 401(k) With No Pain

We don't have to tell you how important it is to save as much as you can for retirement through a 401(k) or other plan offered by your company. But that's often easier said than done. When you're paying off a big mortgage on your home and putting your kids through college, you may be left without much you can direct into your retirement plan. But there may be a way to add to your 401(k) without feeling any pain.

It has to do with timing. If you earn more than the maximum Social Security wage base—$118,500 in 2015—you could allocate all or some of your year-end payroll tax savings to add to your 401(k) salary deferral. If you do that every year, you could boost your 401(k) account balance by tens of thousands of dollars or more. And you may not even notice those extra contributions.

With a 401(k) plan, you can defer part of your salary before taxes to an account established on your behalf, within generous limits adjusted for inflation. For 2015, the maximum you can put in is $18,000—or $24,000, if you're age 50 or older. Your company may sweeten the pot with matching contributions based on a stated percentage of your compensation.

Both employee and employer contributions to your account will grow and compound on a tax-deferred basis until you take money out, usually during retirement. If you start early enough and save diligently, you can accumulate a sizable nest egg during your working career.

Suppose that you contribute $12,000 a year and your employer provides a 3% match of your contributions. If you are 20 years away from retirement and earn an 8% return annually, you will accumulate $858,990 before calling it quits. But adding to your contributions at the end of each year can help you do even better. Note: This example is hypothetical. Actual results will vary and are not guaranteed.

During the year, Social Security tax is deducted from your paychecks. For 2015, you'll pay 6.2% on that first $118,500 of wages. Once you clear this Social Security wage base for the year, you can increase your 401(k) deferrals instead of pocketing the extra money. Because your take-home pay isn't reduced, you won't feel any pain.

How much will it help? Suppose, in the previous example, that you're able to increase your annual deferrals by $3,000 a year. With the same 8% annual return over 20 years, your nest egg will grow to $1,073,738—or $214,748 more than if you had spent your year-end payroll tax savings!

Even if your wages don't exceed the Social Security wage base this year, you can look for ways to earmark more of your salary for retirement savings—a top priority no matter what your financial circumstances. ●

8 Smart Moves For College Grads

Have you or one of your kids recently graduated from college? There's a lot to look forward to—a first job, maybe marriage and family and financial success. But college graduates can't assume that good things will happen automatically. Here are eight moves to make as soon as the ink on the diploma dries:

1. **Get organized.** Put your house in order by collecting vital papers such as your Social Security card, passport, and any investment documents and insurance policies. For optimal protection, store papers you don't need regularly in a bank safe deposit box or another secure location.

2. **Start paying down debt.** If you've borrowed money while earning your degree, chip away at your liability. The top priority is to wipe out credit card debt, on which you're likely paying a sky-high interest rate. What about student loans? Often those interest rates are low and much of your repayment will make a dent in the principal.

3. **Devise a monthly budget.** Once you have a firm grasp on both your monthly income and expenses—rent, car payments, and the like—create a budget. The goal is to be in the black, spending less than you earn, with some savings to spare, but allocate funds for entertainment, too.

4. **Open bank accounts.** If you don't already have them, set up checking and savings accounts at a local bank. But don't overdo things with your new debit card. And be careful with credit cards—using them can help establish your credit history but try to pay off your borrowing quickly to avoid high interest charges.

5. **Look to invest.** Now that you have an income, think about how to use some of it to earn more money. For starters, open a brokerage account with a reputable firm. At this early stage in your life, you generally can afford to be relatively aggressive with your

15 Of The Best Year-End Tax Moves For 2015

As the end of this year approaches, you still have time to cut your tax bill, especially when it comes to your investments and retirement plans. Here are 15 top tax-saving ideas to consider in 2015:

1. Harvest capital losses. This tried-and-true tax strategy for investors still makes sense. By realizing capital losses from securities sales, you can offset highly taxed short-term capital gains, plus up to $3,000 of ordinary income. Any excess loss is carried over.

2. Reap capital gains. Conversely, if you sell securities qualifying for long-term capital gain treatment, the maximum tax rate is only 15% or 20% if you're in the top ordinary income tax bracket. Compare this to ordinary income rates reaching up to 39.6%.

3. Maximize 0% capital gains. Even better than the usual 15% or 20% maximum tax rate, you can benefit from a 0% rate on long-term capital gains up to the top of the 15% tax bracket. For a year in which your income temporarily dips—because of a business loss, for example—this can turn into a bonanza.

4. Minimize the surtax on net investment income. This 3.8% surtax applies to whichever is lower: your net investment income (NII); or the amount of your modified adjusted gross income (MAGI) that exceeds $200,000 for single filers and $250,000 for joint filers. There's still time to take steps to reduce your NII and MAGI for this purpose.

5. Avoid wash sale rule. Under the wash sale rule, you can't deduct a loss from the sale of securities if you acquire substantially identical securities within 30 days of the sale. But the rule easily can be avoided by waiting at least 31 days to acquire similar securities.

6. Sell real estate in installments. Generally, you can defer tax on the sale of real estate if you receive payments over two years or longer. In addition to deferring tax, you can reduce the effective tax rate by staying below the thresholds for capital gains and the 3.8% surtax.

7. Convert to a Roth IRA. If you have funds in a traditional IRA, you might transfer those funds to a Roth, though you will be taxed on the conversion. Future Roth distributions generally are tax-free. Instead of converting all at one time, you can stagger taxable conversions over several years to reduce the tax bite.

8. Bulk up your 401(k). If you increase deferrals to a 401(k) plan, you can reduce the amount of your employment income that's subject to tax. And take advantage of the generous $18,000 deferral limit in 2015 ($24,000 if you're 50 or older). Not only do you avoid tax on the contributions, these amounts compound tax-deferred until you withdraw them during retirement.

9. Don't forget to take required withdrawals from your retirement plans. If you are over age 70½, you generally have to take required minimum distributions (RMDs) from qualified retirement plans and traditional IRAs each year. The penalty for failing to do so is equal to 50% of the required amount, so don't miss the December 31 deadline.

10. Donate stock to charity. When you donate appreciated property such as stock to a charity, you generally can deduct the fair market value of the property if you've held it more than a year. Thus, the appreciation in value of the stock remains untaxed forever.

11. Watch out for the alternative minimum tax. The AMT often snares high-income investors. Educate yourself about all the adjustments and tax preference items that affect AMT liability. By postponing some preferences to 2016, you might be able to reduce or avoid the AMT.

12. Bunch medical expenses. Generally, you can deduct medical expenses only to the extent that they exceed 10% of your adjusted gross income (AGI) in 2015 (7.5% of AGI if age 65 or older). If you group elective expenses this year you might clear the threshold.

13. Shift income within your family. If you transfer taxable investments to a lower-taxed family member, such as a young child, the family may save tax overall. However, under the kiddie tax, if a child receives investment income of more than $2,100 in 2015 it generally will be taxed at the parents' top tax rate.

14. Rent out a vacation home. Normally, you can write off all of the rental expenses of a vacation home, plus depreciation. However, if your use of a vacation home exceeds the greater of 14 days, or 10% of the days the home is rented out, deductions are limited to the amount of rental income. Stay below this threshold.

15. Give year-end gifts. Last, but not least, you can give each family member up to $14,000 in 2015 without paying gift tax. This annual gift tax exclusion reduces the size of your taxable estate. ●

investment choices, because you'll have time to overcome temporary losses. But keep in mind your personal tolerance for investment risk.

6. **Create a "rainy day" fund.** It's impossible to anticipate all of the expenses you'll incur during the next few years. Try to set aside something extra in case of emergencies. For instance, you might face a layoff or an unexpected medical or dental bill. Have enough savings on hand to carry you through for a few months.

7. **Think about retirement.** That's not a misprint. Although you're still decades from calling it quits, the sooner you start saving for retirement, the better. Take advantage of company plans such as a 401(k) (especially if your company matches contributions) and consider supplementing your savings with an IRA.

8. **Obtain financial guidance.** Fortunately, you don't have to do it all on your own. We can provide assistance based on your personal circumstances. Don't hesitate to contact our office for more details. ●

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Social Security Benefit Rules

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claim a spousal benefit of up to 50% of the first spouse's full retirement benefit.

If the higher-earning spouse delays benefits past FRA, that spouse's eventual benefits will increase until he or she reaches age 70. But the lower-earning spouse can't claim spousal benefits until the other spouse applies for benefits, and the amount of the spousal benefit is capped at 50% of the benefits available to the first spouse at FRA. There is no increase in the spousal benefit if the higher-earning spouse delays benefits.

However, using the claim-and-suspend strategy, the higher-earning spouse can claim retirement benefits at FRA—thus enabling the lower-earning spouse to claim spousal benefits—and then suspend the benefits claim. The higher-earning spouse can wait as long as until age 70 to "unsuspend" and claim higher benefits than those allowed at FRA. In the meantime, the lower-earning spouse can collect spousal benefits.

Claim-and-switch strategies: When you reach FRA, you may be able to claim the higher of the benefits based on your earnings history and your spouse's earnings history. However, if the spousal benefit amount is close to the amount of your own benefit, you could file a "restricted application" allowing only spousal benefits, which then enables your own retirement benefits to continue to grow. Later, you can switch to your own retirement benefit, which will be 8% higher for each year you delay past FRA, up to age 70. Then you can rely permanently on these higher benefits.

With another claim-and-switch strategy, you might claim early retirement or spousal benefits at age 62 and switch to survivor benefits after your spouse dies. Normally, you would be locked into lower benefits by claiming early retirement benefits, but that doesn't apply to subsequent survivor benefits. (However, if your spouse also elects early retirement, your eventual survivor benefits will be reduced.) This strategy may be helpful if the higher-earning spouse is considerably older than the lower-earning spouse.

The rules governing these choices can be extremely complex. We can help you make the best decisions for your situation. ●