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Study These Six Higher Education Tax Breaks

Paying for college can be daunting, but federal tax rules provide some relief. With enhancements from the Protecting Americans from Tax Hikes (PATH) Act of 2015, you may benefit from one or more of these six tax provisions:

1. Section 529 Plans, available from all 50 states and the District of Columbia, encourage families to set aside savings for future education expenses. Most states set contribution limits at $300,000 or more. Generally, the investment grows without current taxes and distributions to pay for most college expenses—including tuition, fees, books, supplies, equipment, and room and board for full-time students—are completely tax-free.

You can choose a 529 plan from any state, and although college-savers often choose to save in the plan of their home state, you might be better off establishing a plan elsewhere. Still, more than half of the states offer state tax deductions or credits for Section 529 plan contributions by residents. That could be a compelling reason to stay home when choosing a plan.

2. The American Opportunity Tax Credit (AOTC) became a permanent tax break when the PATH Act became law in December 2015. The maximum annual credit is $2,500. You can get separate credits for each qualified student in your family. For example, if you have three kids in school this year, your maximum credit is $7,500. Also, under another recent tax law change, you now can claim the AOTC for up to four years of school for each child, up from two years previously.

However, the AOTC phases out between $80,000 and $90,000 of modified adjusted gross income (MAGI) for single filers and $160,000 to $180,000 for joint filers. Once you exceed the upper limit, you can't claim the AOTC.

3. The Lifetime Learning Credit (LLC) also is a permanent part of the tax code, but the maximum credit of $2,000 applies per taxpayer rather than per student. So even if you have three kids in school at the same time, the maximum credit is still $2,000.

And eligibility for the LLC also phases out, at levels lower than the AOTC. The range in 2016 is between $55,000 and $65,000 of MAGI for single filers and from $111,000 to $131,000 for joint filers.

4. Tuition deductions also permit some parents to claim deductions for tuition and related fees paid to colleges and universities. This tax provision, extended through 2016 by the PATH Act, provides a deduction of either $4,000 or $2,000, depending on MAGI. For single filers, the $4,000 deduction

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When Will New College Grads Be Able To Retire?

At what age can today's college graduates expect to retire? According to new research released by NerdWallet, an online site offering personal finance information, the average projected retirement age for new college graduates has jumped to 75—more than a decade later than the current average retirement age of 62.

NerdWallet has been calculating likely retirement ages for college grads since 2013. It had determined initially that the average retirement age was 73. But recent increases in rent costs and student debt are setting back millennials even further. For instance, NerdWallet says that the typical debt load carried by students after graduation has surged from $29,400 in 2014 to $35,050 in 2015. At the same time, wages have barely budged. The average salary for grads was $45,487 in 2014 (the last year for which this data was available) as compared to $44,259 in 2012.

The overall figures are daunting. Rising expenses could translate into $684,474 in lost retirement savings for 2015 grads. That's up almost $125,000 from the $560,657 figure for the class of 2012.

The best solution is to save early and often. Once you land your first job, set up a "rainy day fund" for emergencies and begin contributing to a 401(k) or other retirement plan as soon as you're eligible. If you haven't started yet, today's the day!

Social Security Options Remain

Recent federal legislation ended several strategies that could help you maximize Social Security retirement benefits. But with some advance planning, you still can take advantage of a few things the new law didn't change.

Under the Bipartisan Budget Act of 2015, three strategies have been eliminated:

1. File and suspend: A higher-earning spouse could apply for retirement benefits at full retirement age, which is age 66 for most baby boomers. Then the same spouse suspended the benefits, usually until age 70, when the amount of monthly payments from the government would be higher. In the meantime, the lower-earning spouse claimed spousal benefits, which would be larger than the other spouse would have received on his or her own.

This strategy disappeared on April 29, 2016 (six months from the date the new law was enacted). If you suspend benefits now, not only will you not receive benefits, but your spouse also won't be entitled to the higher spousal benefits. But if you turned age 62 before 2016 and you already chose to "file and suspend," you still qualify.

2. Restricted application: A spouse who was eligible for benefits either on his or her own or as a spouse could file a restricted application for spousal benefits only. Then that spouse waited—typically, until age 70—to apply for benefits based on his or her own earnings record. That entitled the spouse to higher Social Security payments.

The new law eliminates the restricted application option for those who turn age 62 after 2015. You now must claim all of your benefits when you file, and the benefits will be based on your own earnings history or the spousal benefit, whichever is greater.

3. Lump-sum payment strategy: Previously, if you used the file-and-suspend strategy at full retirement age, you could request that all suspended payments be paid in a single lump sum at a later date, up until age 70. This lump-sum option also is no longer allowed after April 29, 2016.

Despite these changes, Social Security rules still provide plenty of flexibility. For example, a lower-earning spouse can continue to base Social Security benefits on the work history of the higher-earning spouse if that produces greater benefits. Similarly, a surviving spouse still may be in line for increased benefits.

The 2015 law doesn't affect the rules for "early" or "late" retirement, either.

You're eligible for Social Security retirement benefits as early as age 62, but this choice results in reduced monthly benefits. Waiting instead to apply for benefits after your full retirement age results in higher monthly payouts—and the longer you wait, until you reach age 70, the more you may receive. ●

Views On Retirement Communities

How do you feel about retirement communities? Such places, often reserved for those who are age 55, or older, have many supporters and detractors, and opinions may vary widely even from one spouse to another. In the end, this is a personal decision that you have to make for yourself or as a couple. Consider these key considerations:

Common Advantages

- There's generally plenty to do in a retirement community. Depending on the location, you may be able to use your newfound leisure time for golfing, tennis, swimming, gardening, theatre, clubs of all sorts, and numerous other activities.
- Security is another reason why many senior citizens are flocking to these developments. Many communities are gated and have a visible security presence. Plus, with so many neighbors around all the time—rather than being away at work—suspicious activities tend to be reported quickly.
- The homes usually are located close to a reputable medical facility, shopping, and other conveniences. Some even have retail stores.
- A retirement community may offer peace and quiet, with no teenagers revving up their car engines or having all-night parties.
- Homes are built with retirees in mind. They generally provide easy access for disabled individuals and the elderly.
- You can meet and socialize with people in your own age group.

Common Disadvantages

- You may have strong ties to your current community. Many people feel most comfortable staying in the home where they raised their kids and living close to long-standing friends and neighbors.
- Do you have adult children or grandchildren living with you? If that's the case, you may not want to

Don’t Let Scam Artists Ruin Your Retirement

You work hard for many years in order to reach that wonderful goal at the end of your career: retirement. But when you do finally retire, danger can lurk behind many of the phone calls and emails you may receive. Scams may be targeted at senior citizens and are the work of crooks who will try to rob seniors of the money they have saved to enjoy their retirement years.

You don’t have be retired very long before these problems can begin. You may even start getting come-ons before you retire. To enjoy your retirement years, you need to understand how scam artists operate, who they target, and the many types of scams they operate. Scam artists even buy and sell “sucker” lists of the names of people who have been taken in once or more by scams.

Many of the scams attempt to extract personal information from you, such as your bank account and Social Security numbers, which can be used to steal your identity and money. Never give that information in response to an email or a phone call.

Here are six of the more frequent scams as reported by the National Council on Aging:

1. Medicare/health insurance fraud. Every U.S. citizen or permanent resident age 65 and over qualifies for Medicare, and for these scams, perpetrators may pose as a Medicare representative to get personal information, or they will provide bogus services at makeshift mobile clinics and then use the personal information the seniors provide to bill Medicare and pocket the money.

2. Counterfeit prescription drugs. Counterfeit drug scams tend to operate on the Internet, where seniors increasingly go to find better prices on specialized medications. This scam is growing in popularity—since 2000, the FDA has investigated an average of 20 such cases per year, up from five a year in the 1990s. The danger is that besides paying money for something that won’t help your medical condition, victims may purchase unsafe substances that can inflict even more harm.

3. Funeral and cemetery scams. The FBI warns about funeral and cemetery fraud perpetrated on seniors. In one such approach, scammers read obituaries and call or attend the funeral service of a complete stranger to take advantage of the grieving widow or widower. Claiming the deceased had an outstanding debt to them, the scammers will try to extort money from relatives to “settle” the fake debts.

4. Telemarketing. Perhaps the most common scheme is when scammers use fake telemarketing calls to prey on older people, who as a group make twice as many purchases over the phone than the national average. With no face-to-face interaction, and no paper trail, these scams are incredibly hard to trace.

5. Internet fraud. While using the Internet is a great skill at any age, the slower speed of adoption among some older people makes them easier targets for automated Internet scams that are everywhere on the web. Pop-up browser windows simulating virus-scanning software will fool victims into either downloading a fake anti-virus program (at a substantial cost) or an actual virus that will open up whatever information is on the user’s computer to scammers. Many of these scammers falsely claim they are calling about “Windows,” the Microsoft operating system used by the majority of computers. Don’t believe it. Hang up the phone.

6. Sweepstakes and lottery scams. Here, scammers inform their target that he or she has won a lottery or sweepstakes of some kind and needs to make a payment to unlock the purported prize. Often, seniors will be sent checks that they can deposit in their bank accounts. The scammers know that while the deposits show up in the seniors’ accounts immediately, it will take a few days before the fake checks are rejected. During that time, the criminals will collect money for supposed fees or taxes on the prize, which they pocket while the victim has the “prize money” removed from his or her account as soon as the check bounces.

If you suspect you’ve been the victim of a scam, call the Eldercare Locator, a government-sponsored national resource line, at 1-800-677-1116, or visit its website at www.eldercare.gov. ●

uproot them. In addition, they may not be allowed to live full time in an age-restricted community.

- Even if you don’t have youngsters living with you, you may enjoy being around younger people. The age mix in your neighborhood may suit you just fine.

- One frequent complaint of young retirees is that they don’t want to live with “old” people. They see themselves as being young or at least acting as if they were. And some people view living in a retirement community as a stigma to be avoided at all costs.

- The association fees for maintaining the community grounds—often including swank clubhouses, golf courses, and other amenities—can be pricey. If you’re not a golfer, or shun the swimming pool, the extra costs might not be worth it to you.

In any event, get all the information you need to make the best choice for your situation. Your advisers can help. ●

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Higher Education Tax Breaks

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is available for a MAGI up to $65,000 and $2,000 between $65,000 and $80,000. Joint filers can deduct $4,000 for a MAGI up to $130,000 and $2,000 if a MAGI is between $130,000 and $160,000. Above those limits you don't get a deduction. Taxpayers may claim either higher education credit—the AOTC or the LLC—or the tuition deduction, but not more than one of these three tax breaks.

5. Student loan interest deductions allow you to deduct the annual interest you pay on a student loan, up to a maximum of $2,500. This deduction applies only to the taxpayer who's actually repaying the loan. And the deduction for student loan interest is phased out based between $65,800 and $80,000 of MAGI for single filers and between $130,000 and $160,000 of MAGI for joint filers.

6. Coverdell Education Savings Accounts (CESAs) allow annual contributions of up to $2,000. This is on the low side, especially when compared to Section 529 plans that let you make six-figure contributions. And the ability to put money into a CESA in the first place is phased out between $95,000 and $115,000 of MAGI for single filers and between $190,000 and $220,000 of MAGI for joint filers. But if you qualify, these accounts, too, shield you from current taxes on earnings and you can withdraw money tax-free to pay for tuition and fees, room and board, uniforms, transportation, books and supplies, academic tutoring, and computers.

One bonus with a CESA: those who qualify to contribute to the accounts can use the money to cover costs from kindergarten through 12th grade as well as for college.

These tax breaks may offer parents help in saving for the high cost of higher education. We can help you sort through your options and navigate the arcane rules to find the best path in your situation. ●