Financial Intelligence

Peak Asset MANAGEMENT

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Introduction

by John McCorvie, CFA

In our October 2015 quarterly letter we noted the broadening and deepening of our client financial planning resources with the addition of Brent Yanagida, CFP ®, EA. Brent joined us through the 2015 merger of Ace Investing Services, Inc., into Peak. This *Financial Intelligence* is Brent's first educational piece for us, with a timely review of Social Security, including information on the recently updated rules around "filing and suspending" benefits. We are pleased to offer Brent's expertise in key financial planning topics such as tax and retirement planning. Brent's advice is available to all of Peak's clients as a part of our overall wealth management services. If there is a topic you would like to explore further, please let us know and we will schedule a meeting.

Retirement Planning Part 1: An Update on Social Security

by Brent Yanagida, CFP ®, EA

As a new member of the Peak Asset Management team, I'm excited to help provide the input, solutions, and action plans needed to help clients reach their financial independence. This newsletter is the first of a two part series highlighting the key components of Retirement Planning. With some recent Social Security changes passed into law last November, we feel it is important to provide a review of the program as it stands today, and highlight some changes that go into effect April 30 of this year. Our 2nd article, to follow shortly, will highlight the bigger picture of planning for your overall retirement, of which social security optimization is just one component. Enclosed with these articles will be a 2016 tax reference table that may help guide you in implementing retirement and tax saving strategies for this year and beyond. For those of you whom we have done retirement projections and social security analysis, we hope that these newsletters provide a review of topics covered in prior meetings.

Social Security Retirement Benefits

How much will your retirement benefit be?

Your retirement benefit is based on your average earnings over your working career, which has to include a minimum of 40 credits (10 years of work). Higher lifetime earnings result in higher benefits, so if you have some years of no earnings or low earnings, your benefit amount may be lower than if you had worked steadily. Your age at the time you start receiving benefits also affects your benefit amount. Although you can retire early at age 62, the longer you wait to retire (up to age 70), the higher your retirement benefit.

You can find out more about future Social Security benefits by signing up for a My Social Security account at the Social Security website, www.ssa.gov, so that you can view your online Social Security Statement. Your statement contains a detailed record of your earnings, as well as estimates of retirement, survivor's, and disability benefits. If you're not registered for an online account and are not yet receiving benefits, you'll receive a statement in the mail every five years, from age 25 to age 60, and then annually thereafter. You can also use the Retirement Estimator calculator on the Social Security website, as well as other benefit calculators that can help you estimate disability and survivor's benefits.

"Some recent Social Security changes passed into law last November ..."

Retiring at full retirement age

If you retire at full retirement age, you'll receive an unreduced retirement benefit. Your full retirement age depends on the year in which you were born. If you were born in 1943-1954, your full retirement age (FRA) is 66. If in 1955, your FRA is 66 and 2 months. If in 1956, your FRA is 66 and 4 months. If in 1957, your FRA is 66 and 6 months. If in 1958, your FRA is 66 and 8 months. If in 1959, your FRA is 66 and 10 months. If in 1960 or later, your FRA is age 67.

Retiring early will reduce your benefit

You can begin receiving Social Security benefits before your full retirement age, as early as age 62. However, if you retire early, your Social Security benefit will be less than if you wait until your full retirement age to begin receiving benefits. Your retirement benefit will be reduced by 5/9ths of 1 percent for every month between your retirement date and your full retirement age, up to 36 months, then by 5/12ths of 1 percent thereafter. For example, if your full retirement age is 67, you'll receive about 30 percent less if you retire at age 62 than if you wait until age 67 to retire. This reduction is permanent--you won't be eligible for a benefit increase once you reach full retirement age. However, even though your monthly benefit will be less, you might receive the same or more total lifetime benefits as you would have had you waited until full retirement age to start collecting benefits. That's because even though you'll receive less per month, you might receive benefits over a longer period of time.

Delaying retirement will increase your benefit

For each month that you delay receiving Social Security retirement benefits past your full retirement age, your benefit will increase by a certain percentage. This percentage varies depending on your year of birth. For example, if you were born in 1943 or later, your benefit will increase 8 percent for each year that you delay receiving benefits, up until age 70. In addition, working past your full retirement age has another benefit: It allows you to add years of earnings to your Social Security record. As a result, you may receive a higher benefit when you do retire, especially if your earnings are higher than in previous years.

Working may affect your retirement benefit

You can work and still receive Social Security retirement benefits, but the income that you earn before you reach full retirement age may affect the amount of benefit that you receive. Here's how:

- If you're under full retirement age: $1 in benefits will be deducted for every $2 in earnings you have above the annual limit.
- In the year you reach full retirement age: $1 in benefits will be deducted for every $3 you earn over the annual limit (a different limit applies here) until the month you reach full retirement age.

Once you reach full retirement age, you can work and earn as much income as you want without reducing your Social Security retirement benefit. And keep in mind that if some of your benefits are withheld prior to your full retirement age, you'll generally receive a higher monthly benefit at full retirement age, because after retirement age the SSA recalculates your benefit every year and gives you credit for those withheld earnings.

Retirement benefits for qualified family members

Even if your spouse has never worked outside your home or in a job covered by Social Security, he or she may be eligible for spousal benefits based on your Social Security earnings record. Other members of your family may also be eligible. Retirement benefits are generally paid to family members who relied on your income for financial support. If you're receiving retirement benefits, the members of your family who may be eligible for family benefits include:

- Your spouse age 62 or older, if married at least one year
- Your former spouse age 62 or older, if you were married at least 10 years
- Your spouse or former spouse at any age, if caring for your child who is under age 16 or disabled
- Your children under age 18, if unmarried
- Your children under age 19, if full-time students (through grade 12) or disabled
- Your children older than 18, if severely disabled

Your eligible family members will receive a monthly benefit that is as much as 50 percent of your benefit. However, the amount that can be paid each month to a family is limited. The total benefit that your family can receive based on your earnings record is about 150 to 180 percent of your full retirement benefit amount. If the total family benefit exceeds this limit, each family member's benefit will be reduced proportionately. Your benefit won't be affected.

How do you apply for Social Security retirement benefits?

The SSA recommends that you apply three months before you want your benefits to start. To apply, fill out an application on the SSA website, call the SSA at (800) 772-1213, or make an appointment at your local SSA office.

What's changing?

The provision of the budget bill called "Closure of Unintended Loopholes" primarily addresses two Social Security claiming strategies that have become increasingly popular over the last several years. These two strategies, known as "file and suspend" and "restricted application for a spousal benefit," have often been used to increase cumulative Social Security income for married couples. The budget bill has eliminated those strategies for most future retirees, but you may still have time to take advantage of them, depending on your age.

File and Suspend

Under the old rules, an individual who had reached full retirement age could file for retired worker benefits in order to allow a spouse or dependent child to file for a spousal or dependent benefit. The individual could then suspend the retired worker benefit in order to accrue delayed retirement credits, and claim an increased worker benefit at a later date, up to age 70. For some couples and families, this strategy increased their total lifetime combined benefit.

> "A limited window still exists to take advantage of these two claiming strategies."

Under the new rules, effective for suspension requests submitted on or after April 30, 2016, the worker can file and suspend and accrue delayed retirement credits, but no one can collect benefits on the worker's earnings record during the suspension period, effectively ending the file-and-suspend strategy for couples and families. The new rules also mean that a worker who files and suspends can no longer request a lump-sum payment in lieu of receiving delayed retirement credits for the period during which benefits were suspended. (This previously available option was helpful to someone who faced a change of circumstances, such as a serious illness.)

Restricted Application

Under the old rules, a married individual who had reached full retirement age could file a "restricted application" for spousal benefits after the other spouse had filed for retired worker benefits. This allowed the individual to collect spousal benefits while delaying filing for his or her own benefit, in order to accrue delayed retirement credits. Under the new rules, an individual born in 1954 or later who files a benefit application will be deemed to have filed for both worker and spousal benefits, and will receive whichever benefit is higher. He or she will no longer be able to file only for spousal benefits.

The Bottom Line on the Changes

A limited window still exists to take advantage of these two claiming strategies. If you are currently at least age 66 or will be by April 29, 2016, you may be able to use the file-and-suspend strategy to allow your eligible spouse or dependent child to file for benefits, while also increasing your future benefit. To file a restricted application and claim only spousal benefits at age 66, you must be at least age 62 by the end of December 2015. At the time you file, your spouse must have already claimed Social Security retirement benefits or filed and suspended benefits before the effective date of the new rules.

What if you're already using one of these strategies?

If you are already using the file-and-suspend or the restricted application strategy, you will not be affected by the new rules. You have already met the age requirements.

How are benefits for surviving spouses affected?

Rules affecting surviving spouses have not changed. If you are eligible for both a survivor benefit and a retirement benefit based on your own earnings record, you can still opt to receive one benefit first, then switch to the other higher benefit later.

What planning opportunities still exist?

Even if you can no longer take advantage of the file-and-suspend and restricted application strategies, you may still benefit from considering your Social Security filing options. The age when you begin receiving Social Security benefits can significantly affect your retirement income and income that is available to your survivors.

Basic options for claiming Social Security, as explained earlier, remain unchanged. Determining when to file for Social Security benefits is one of the biggest financial decisions you'll need to make as you approach retirement. There's no "one-size-fits-all" answer--it's an individual decision that must be based on many factors, including other sources of retirement income, whether you plan to continue working, how many years you expect to spend in retirement, and your income tax situation. It's especially complicated when you're married because you and your spouse will need to plan together, taking into account the Social Security benefits you each may be entitled to, including survivor benefits.

Please know that we are here to help you understand your Social Security options, and to provide recommendations that can help you reach your retirement goals.

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Key Numbers 2016

Tax reference numbers at a glance.

Income Tax (2016 tax rate tables)

Single			Married filing jointly		
Taxable income	Tax due	Marginal tax rate*	Taxable income	Tax due	Marginal tax rate*
$0	$0	10%	$0	$0	10%
$9,275	$927.50	15%	$18,550	$1,855.00	15%
$37,650	$5,183.75	25%	$75,300	$10,367.50	25%
$91,150	$18,558.75	28%	$151,900	$29,517.50	28%
$190,150	$46,278.75	33%	$231,450	$51,791.50	33%
$413,350	$119,934.75	35%	$413,350	$111,818.50	35%
$415,050	$120,529.75	39.6%	$466,950	$130,578.50	39.6%

Head of household			Married filing separately		
Taxable income	Tax due	Marginal tax rate*	Taxable income	Tax due	Marginal tax rate*
$0	$0	10%	$0	$0	10%
$13,250	$1,325.00	15%	$9,275	$927.50	15%
$50,400	$6,897.50	25%	$37,650	$5,183.75	25%
$130,150	$26,835.00	28%	$75,950	$14,758.75	28%
$210,800	$49,417.00	33%	$115,725	$25,895.75	33%
$413,350	$116,258.50	35%	$206,675	$55,909.25	35%
$441,000	$125,936.00	39.6%	$233,475	$65,289.25	39.6%

* Rate applies to each additional dollar in taxable income received until the next taxable income threshold amount is reached.

Education Credits and Deductions

MAGI phaseout ranges	Single or head of household	Married filing jointly
Lifetime Learning credit **($2,000 max)**	$55,000 to $65,000	$111,000 to $131,000
American Opportunity credit **($2,500 max)**	$80,000 to $90,000	$160,000 to $180,000
Education loan interest deduction **($2,500 max)**	$65,000 to $80,000	$130,000 to $160,000
U.S. Savings bond interest exclusion for higher-education expenses	$77,550 to $92,550	$116,300 to $146,300

Standard Deduction and Personal Exemption

Filing status	Standard deduction	Personal & dependency exemption	Phaseout threshold*
Single	$6,300	$4,050	$259,400
Married filing jointly	$12,600	$4,050	$311,300
Married filing separately	$6,300	$4,050	$155,650
Head of household	$9,300	$4,050	$285,350
Dependent**	$1,050**		
Additional deduction for blind or aged (over age 65)			
Single or head of household		$1,550	
Married filing jointly or separately		$1,250	

* Phaseout applies to personal exemption & itemized deductions.
** Dependent standard deduction is the greater of $1,050 or $350 plus earned income.

Investment Taxes

Single filer	Married filing jointly	Married filing separately	Head of household	Tax rate
Long-term capital gain & qualified dividend tax (taxable income thresholds)				
Up to $37,650	Up to $75,300	Up to $37,650	Up to $50,400	0%
$37,651 up to $415,050	$75,301 up to $466,950	$37,651 up to $233,475	$50,401 up to $441,000	15%
More than $415,050	More than $466,950	More than $233,475	More than $441,000	20%
Net investment income tax (MAGI thresholds)				
Over $200,000	Over $250,000	Over $125,000	Over $200,000	3.8%*

*The 3.8% net investment income tax (also referred to as the unearned income Medicare contribution tax) applies to the lesser of (a) net investment income or (b) modified adjusted gross income (MAGI) exceeding the above thresholds. It does not apply to municipal bond interest or qualified retirement plan/IRA withdrawals.

Retirement Planning

Employee contribution limits to employer plans*	
401(k) plans, 403(b) plans, 457(b) plans, and SAR-SEPs (includes Roth contributions to these plans)	$18,000
Annual catch-up contribution (age 50+)	$6,000
SIMPLE 401(k) and SIMPLE IRA plans	$12,500
Annual catch-up contribution (age 50+)	$3,000
IRA contribution limits**	
Traditional and Roth IRAs (combined)	$5,500
Annual catch-up contribution (age 50+)	$1,000

* Lesser of these limits or 100% of participant's compensation.
** Lesser of these limits or 100% of earned income.

MAGI phaseout limits for deductible contributions to a traditional IRA (affects taxpayers covered by an employer-sponsored retirement plan)	
Single or head of household	$61,000 to $71,000
Married filing jointly when the spouse who makes the contribution is covered by a workplace plan	$98,000 to $118,000
Married filing jointly when the spouse who makes the contribution is not covered by a workplace plan but the other spouse is covered	$184,000 to $194,000
Married filing separately	Up to $10,000
MAGI phaseout limits to contribute to a Roth IRA	
Single or head of household	$117,000 to $132,000
Married filing jointly	$184,000 to $194,000
Married filing separately	Up to $10,000

Estate Planning

Estate and gift tax	
Annual gift tax exclusion	$14,000
Noncitizen spouse annual gift tax exclusion	$148,000
Top gift, estate, and generation-skipping transfer (GST) tax rate	40%
Gift tax and estate tax applicable exclusion amount	$5,450,000 + DSUEA*
Generation-skipping transfer (GST) tax exemption	$5,450,000**

* Basic exclusion amount plus deceased spousal unused exclusion amount (exclusion is portable).
**The GST tax exemption is not portable.

Social Security/Medicare

Tax rate on earnings	
FICA tax – Employee	
Social Security (OASDI) portion	6.2%
Medicare (HI) portion	1.45%*
FICA tax – Employer (OASDI & HI)	7.65%
FICA tax – Self-employed	
Social Security (OASDI) portion	12.4%
Medicare (HI) portion	2.9%*
Additional employee Medicare payroll tax/ self-employment tax on earnings in excess of specific limits*	0.9%*
Maximum taxable earnings	
Social Security (OASDI only)	$118,500
Medicare (HI only)	No limit

* Additional Medicare tax is assessed on earnings in excess of $200,000 (single filer), $250,000 (married filing jointly), or $125,000 (married filing separately).

Alternative Minimum Tax (AMT)

	Maximum exemption amount	Exemption phaseout threshold
Single or head of household	$53,900	$119,700
Married filing jointly	$83,800	$159,700
Married filing separately	$41,900	$79,850

26% rate applies to AMT income up to $186,300*
28% rate applies to AMT income over $186,300*

* $93,150 if married filing separately.

Standard Mileage

Standard mileage rates	Cents per mile
Business purposes	54¢
Medical purposes	19¢
Moving purposes	19¢
Charitable purposes	14¢

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