Financial Briefs

Guidance For Every Stage of Life

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Hi Everyone,

As 2016 unfolds, there's plenty to keep us busy just now.

The articles in this newsletter issue share some important updates and tips. Give us a call if we can assist you in addressing your financial issues.

Warm regards,
Deidra

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Changes to Social Security Claiming Strategies

The Bipartisan Budget Act of 2015 included a section titled "Closure of Unintended Loopholes" that ends 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 optimize Social Security income for married couples.

If you have not yet filed for Social Security, it's important to understand how these new rules could affect your retirement strategy. Depending on your age, you may still be able to take advantage of the expiring claiming options. The changes should not affect current Social Security beneficiaries and do not apply to survivor benefits.

File and suspend

Under the previous rules, an individual who had reached full retirement age could file for retired worker benefits--typically to enable a spouse to file for spousal benefits--and then suspend his or her benefit. By doing so, the individual would earn delayed retirement credits (up to 8% annually) and claim a higher worker benefit at a later date, up to age 70. Meanwhile, his or her spouse could be receiving spousal benefits. For some married couples, especially those with dual incomes, this strategy increased their total combined lifetime benefits.

Under the new rules, which are effective as of April 30, 2016, a worker who reaches full retirement age can still file and suspend, but no one can collect benefits on the worker's earnings record during the suspension period. This strategy effectively ends the file-and-suspend strategy for couples and families.

The new rules also mean that a worker cannot later request a retroactive lump-sum payment for the entire period during which benefits were suspended. (This previously available claiming option was helpful to someone who faced a change of circumstances, such as a serious illness.)

Tip: *If you are age 66 or older before the new rules take effect, you may still be able to take advantage of the combined file-and-suspend and spousal/dependent filing strategy.*

Restricted application

Under the previous rules, a married person who had reached full retirement age could file a "restricted application" for spousal benefits after the other spouse had filed for Social Security worker benefits. This allowed the individual to collect spousal benefits while earning delayed retirement credits on his or her own work record. In combination with the file-and-suspend option, this enabled both spouses to earn delayed retirement credits while one spouse received a spousal benefit, a type of "double dipping" that was not intended by the original legislation.

Under the new rules, an individual eligible for both a spousal benefit and a worker benefit will be "deemed" to be filing for whichever benefit is higher and will not be able to change from one to the other later.

Tip: *If you reached age 62 before the end of December 2015, you are grandfathered under the old rules. If your spouse has filed for Social Security worker benefits, you can still file a restricted application for spouse-only benefits at full retirement age and claim your own worker benefit at a later date.*

Basic Social Security claiming options remain unchanged. You can file for a permanently reduced benefit starting at age 62, receive your full benefit at full retirement age, or postpone filing for benefits and earn delayed retirement credits, up to age 70.

Although some claiming options are going away, plenty of planning opportunities remain, and you may benefit from taking the time to make an informed decision about when to file for Social Security.

Filing Your 2015 Federal Income Tax Return

Filing deadline for most individuals:

- *Monday,* ***April 18, 2016***
- *Tuesday,* ***April 19, 2016,*** *if you live in Massachusetts or Maine*
- *Monday,* ***October 17, 2016,*** *if you file for an automatic six-month extension by the original due date*

Whether you're preparing your own tax return or paying someone to do it for you, tax season can be a stressful time of year. Make things easier on yourself by pulling all your information together sooner rather than later--that includes a copy of last year's tax return, W-2s, 1099s, and any deduction records you have.

File on time

The filing deadline for most individuals is Monday, April 18, 2016. That's because Emancipation Day, a legal holiday in Washington, D.C., falls on Friday, April 15, this year. If you live in Massachusetts or Maine, you have until Tuesday, April 19, 2016, to file a federal income tax return because Patriots' Day, a legal holiday in both states, is celebrated on April 18.

If you're not able to file your federal income tax return by the due date, you can file for an extension using IRS Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return.* Filing this extension gives you an additional six months (until October 17, 2016) to file your federal income tax return. You can also file for an automatic six-month extension electronically (details on how to do so can be found in the Form 4868 instructions).

Note: *Special rules apply if you're living outside the country, or serving in the military outside the country, on the regular due date of your federal income tax return.*

Pay what you owe

One of the biggest mistakes you can make is not filing your return because you owe money. If the bottom line on your return shows that you owe tax, file and pay the amount due in full by the due date if at all possible. If you absolutely cannot pay what you owe, file the return and pay as much as you can afford. You'll owe interest and possibly penalties on the unpaid tax, but you will limit the penalties assessed by filing your return on time, and you may be able to work with the IRS to pay the unpaid balance (options available may include the ability to enter into an installment agreement).

It's important to understand that filing for an automatic extension to file your return does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe; you should pay this amount by the April 18 (April 19 if you live in Massachusetts or Maine) due date. If you don't, you will owe interest, and you may owe penalties as well. If the IRS believes that your estimate of taxes was not reasonable, it may void your extension.

Limited planning opportunities may still be available

Though the opportunity for many potential tax-saving moves closed on December 31, the window is still open for IRA contributions. You generally have until the April due date of your federal income tax return to make contributions to a traditional or Roth IRA for the 2015 tax year. That means there's still time to set aside up to $5,500 ($6,500 if you're age 50 or older) in one of these tax-advantaged savings vehicles.

Note: *To contribute to either a traditional or a Roth IRA for 2015, you (or, if you file a joint return, your spouse) must have received taxable compensation during the year. Provided that you did not reach age 70½ by the end of the year, you're able to contribute to a traditional IRA. Eligibility to contribute to a Roth IRA depends on your filing status and income.*

With a traditional IRA, you're generally able to deduct the full amount of your contribution, provided that you're not covered by a 401(k) or another employer-sponsored retirement plan; if you or your spouse is covered by an employer plan, the ability to deduct some or all of your contribution depends on your filing status and income. With a Roth IRA, there's no up-front deduction, so contributing won't affect your 2015 tax situation, but it's still worth considering given that future qualified Roth distributions are free of federal income tax.

You also have until the due date of your return, including any extension, to undo ("recharacterize") a 2015 Roth IRA conversion. For example, if you converted a fully taxable traditional IRA worth $100,000 to a Roth IRA in 2015 and that Roth IRA is now worth only $50,000, the $100,000 will be included on your 2015 federal income tax return. If you recharacterize the conversion, however, it's as though it never happened--you have a traditional IRA worth $50,000, and no income or tax resulting from the conversion. If you do recharacterize a 2015 Roth conversion in 2016, you're allowed to convert those dollars (and any earnings) back to a Roth IRA after a 30-day waiting period (taxes due as a result of such a reconversion would be included on your 2016 federal income tax return).

You don't have to do it alone

When it comes to your taxes, you want to make sure that you get it right. A tax professional can answer any questions you have, help you evaluate your situation, and keep you apprised of any legislative changes that might affect you.

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Quiz: Which Birthdays Are Financial Milestones?

What is the birthday rule?

The birthday rule may be used by health insurers to coordinate benefits when a dependent child is covered by the health plans of both parents and the parents are married or living together. The plan of the parent whose birthday falls earlier in the calendar year is generally the primary plan, providing benefits and paying claims first, and the plan of the other parent provides secondary coverage. If the parents share the same birthday, primary coverage is provided by the plan that has covered one parent the longest.

Source: National Association of Insurance Commissioners, naic.org

When it comes to your finances, some birthdays are more important than others. Take this quiz to see if you can identify the ages that might trigger financial changes.

Questions

1. Eligibility for Medicare coverage begins at what age?

a. 62

b. 65

c. 66

2. A child can stay on a parent's health insurance plan until what age?

a. 18

b. 21

c. 26

3. At this age individuals who are making contributions to a traditional or Roth IRA or an employer-sponsored retirement plan can begin making "catch-up" contributions.

a. 50

b. 55

c. 60

d. 66

4. This age is most often associated with drops in auto insurance premiums.

a. 18

b. 25

c. 40

d. 50

5. Individuals who have contributed enough to Social Security to qualify for retirement benefits become eligible to begin collecting reduced benefits starting at what age?

a. 62

b. 65

c. 66

d. 70

6. To obtain a credit card, applicants under this age must demonstrate an independent ability to make account payments or have a cosigner.

a. 16

b. 18

c. 21

Answers

1. b. 65. Medicare eligibility begins at age 65, although people with certain conditions or disabilities may be able to enroll at a younger age. You'll be automatically enrolled in Medicare when you turn 65 if you're already receiving Social Security benefits, or you can sign up on your own if you meet eligibility requirements.

2. c. 26. Under the Affordable Care Act, a child may retain his or her status as a dependent on a parent's health insurance plan until age 26. If your child is covered by your employer-based plan, coverage will typically end during the month of your child's 26th birthday. Check with the plan or your employer to find out exactly when coverage ends.

3. a. 50. If you're 50 or older, you may be able to make contributions to your IRA or employer-sponsored retirement plan above the normal contribution limit. These "catch-up" contributions are designed to help you make up a retirement savings shortfall by bumping up the amount you can save in the years leading up to retirement. If you participate in an employer-sponsored retirement plan, check plan rules--not all plans allow catch-up contributions.

4. b. 25. By age 25, drivers generally see their premiums decrease because, statistically, drivers younger than this age have higher accident rates. Gaining experience and maintaining a clean driving record should lead to lower premiums over time. However, there's no age when auto insurance rates automatically drop because rates are based on many factors, including type of vehicle and claims history, and vary by state and insurer; each individual's situation is unique.

5. a. 62. You can begin receiving Social Security retirement benefits as early as age 62. However, your benefits will be reduced by as much as 30% below what you would have received if you had waited until your full retirement age (66 to 67, depending on your year of birth).

6. c. 21. As a result of the Credit Card Act of 2009, credit card companies cannot issue cards to those under age 21 unless they can show proof that they can repay the debt themselves or unless someone age 21 or older with the ability to make payments cosigns the credit card agreement.

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I'm thinking about storing financial documents in the cloud. What should I know?

Cloud storage--using Internet-based service providers to store digital assets such as books, music, videos, photos, and even important documents including financial statements and contracts--has become increasingly popular in recent years. But is it right for you?

Opinions vary on whether to store your most sensitive information in the cloud. While some experts say you should physically store items you're not willing to lose or expose publicly, others contend that high-security cloud options are available.

If you're thinking about cloud storage for your financial documents, consider the following:

- Evaluate the provider's reputation. Is the service well known, well tested, and well reviewed by information security experts?
- Consider the provider's own security and redundancy procedures. Look for such features as two-factor authentication and complex password requirements. Does it have copies of your data on servers at multiple geographic locations, so that a disaster in one area won't result in an irretrievable loss of data?
- Review the provider's service agreement and terms and conditions. Make sure you understand how your data will be protected and what recourse you have in the event of a breach or loss. Also understand what happens when you delete a file--will it be completely removed from all servers? In the event a government subpoena is issued, must the service provider hand over the data?
- Consider encryption processes, which prevent access to your data without your personal password (including access by people who work for the service provider). Will you be using a browser or app that provides for data encryption during transfer? And once your data is stored on the cloud servers, will it continue to be encrypted?
- Make sure you have a complex system for creating passwords and never share your passwords with anyone.

What's the best way to back up my digital information?

In writing or speaking, redundancy is typically not recommended unless you're really trying to drive a point home. When it comes to your digital life, however, redundancy is not only recommended, it's critical.

Redundancy is the term used to refer to data backups. If you have digital assets that you don't want to risk losing forever--including photos, videos, original recordings, financial documents, and other materials--you'll want to be sure to back them up regularly. And it's not just materials on your personal computer, but your mobile devices as well. Depending on how much you use your devices, you may want to back them up as frequently as every few days.

A good rule to follow is the 3-2-1 rule. This rule helps reduce the risk that any one event--such as a fire, theft, or hack--will destroy or compromise both your primary data and all your backups.

1. Have at least three copies of your data. This means a minimum of the original plus two backups. In the world of computer redundancy, more is definitely better.
2. Use at least two different formats. For example, you might have one copy on an external hard drive and another on a flash drive, or one copy on a flash drive and another using a cloud-based service.
3. Ensure that at least one backup copy is stored offsite. You could store your external hard drive in a safe-deposit box or at a trusted friend or family member's house. Cloud storage is also considered offsite.

If a cloud service is one of your backup tactics, be sure to review carefully its policies and procedures for security and backup of its servers. Another good idea is to encrypt (that is, create strong passwords that only you know) to protect sensitive documents and your external drives.

So at the risk of sounding redundant (or driving the point home?), a good rule for data backup is to have at least three copies on at least two different formats, with at least one copy stored offsite. And more is always better.