Schneider
WEALTH STRATEGIES

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WEALTH MANAGEMENT REPORT

New Law Tightens Up Two Social Security Loopholes

New federal legislation signed on November 2, 2015 – the Bipartisan Budget Act – effectively ends two popular Social Security planning techniques: the "file-and-suspend" strategy and the "restricted application" strategy. However, some retirees still may benefit from one or both of these for a limited time.

Other basic rules affecting Social Security retirement benefits haven't changed. So if you're preparing to retire you'll still face important decisions about applying for benefits. In particular, you'll need to determine whether you want to apply for Social Security benefits early, at full retirement age (FRA), or later.

- You're eligible for Social Security retirement benefits when you turn 62, but if you start then you'll receive less than if you delayed payments for a few years. At age 62, your benefit will be about 25% lower than it would have been if you waited until your FRA.
- If you wait until FRA to apply for benefits, you will receive 100% of the benefits to which you're entitled. The FRA varies according to your date of birth. For those born before 1943, FRA is age 65. For those born from 1943 through 1954, FRA is age 66. It gradually increases until topping out at age 67 for those born after 1959.
- Finally, you can delay the start of benefits past when you reach FRA, and that would increase your monthly payment. The longer you wait, up until you turn 70, the higher your benefit will be. (Delaying past 70 won't bump up your benefit, however.) If you were born in 1943 or later, your annual benefit amount will rise by 8% for each year beyond FRA that you wait to collect benefits.

Other special considerations may come into play for married couples. In a situation in which one spouse is entitled to a greater benefit than the other based on their respective earnings histories, the lower-earning spouse may claim "spousal benefits" providing a larger monthly payment. This wrinkle in the law for Social Security relates to these two loopholes closed by the new law:

1. File-and-suspend strategy. With this approach, the higher-earning spouse usually opts to apply for retirement benefits at FRA. That spouse then suspends payment of the benefits, as now allowed by Social Security rules, which can lead to greater future benefits. Typically, that higher-earning spouse would wait until age 70 before starting to receive benefits. In the meantime, the lower-earning spouse claims spousal benefits, which will be larger than he or she otherwise would have received.

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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!

5 Reasons To Amend Your Estate Plan

It's 2016...do you know where your estate plan is? If you're like most busy people, you may have made a will, perhaps when your children were born, and it's possible you've taken other steps to lay out what will happen after you're gone. But frequently those plans are just gathering dust.

Now's a good time to crack open the vault and take a closer look. Typically, your estate plan will need a minor update, and in some cases a complete overhaul may be in order. Consider these five reasons to revise your plan:

1. Family changes: Your personal situation may have shifted because of a divorce, a separation, or the death of a spouse. You might want to add or subtract beneficiaries to trusts or estates if children or grandchildren have been born since you created your estate plan or if a beneficiary has died. Or your intended heirs may have married or divorced, further complicating matters.

2. Financial changes: When you created your estate plan, you probably owned fewer assets or different assets than you have now. You may need to revise your will or trust documents, especially if the value has changed dramatically. Or perhaps you've acquired a business interest or sold one—another potentially big change to your financial status. A job loss or change also could have an impact on your plan.

3. Tax law changes: It seems like the federal estate tax law is amended every other year, so it's important to keep abreast of the latest developments. For instance, your estate plan may not reflect the ever-increasing federal estate tax exemption. The exemption, which was $650,000 a decade and a half ago, has ballooned to $5.45 million for someone who dies in 2016. Other tax law provisions, such as the "portability" of exemptions between the estates of you and your spouse, also may need to be addressed.

4. Geographic changes: If you've pulled up stakes and moved the homestead, maybe downsizing to a place in a warmer climate, this significant change also probably needs to be reflected in your estate plan—especially if you've moved to a state with substantially different tax laws.

5. Personal changes: Finally, you may have had a change of heart about beneficiaries or developed different priorities or preferences. For example, you might decide to cut a daughter-in-law or son-in-law out of your will or decide to attach conditions to particular gifts or bequests. It's your estate plan, so you can "fix" it however you like.

Of course, you don't have to undertake all of this on your own. Rely on your financial, tax, and legal advisers for guidance. ●

Compare Minor's Account To 529 Plan

Until the Section 529 college savings plan came along, parents looking ahead to the high cost of college for their children often set up accounts under their states' Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA). But the broad benefits of 529 plans have made them more popular than UGMAs and UTMAs in recent years. Here's how the two saving vehicles compare:

UGMA/UTMA accounts: These are custodial accounts to which you contribute money for a minor's benefit. As the custodian, you control the investments until the child reaches age 18 or 21, depending on the laws of your state.

However, for tax purposes, any earnings on account assets are taxed to your children at their lower tax rates. For 2016, the first $1,050 of earnings in a custodial account is tax-free and the next $1,050 is taxed at the child's rate. But earnings beyond $2,100 are generally subject to the so-called kiddie tax—they're taxed at the parents' top rate. And whether you pay or your child pays that tax, it creates an annual drain on the account during the years you're trying to build up funds for college.

Section 529 plans: With this type of state-sponsored plan, you contribute to an account for which you name your child as beneficiary. Then you're in charge of how the money is invested (though only among the options the plan offers, and the ability to switch investments is limited). Unlike in a custodial account, earnings from investments aren't taxed while they're accumulating. And distributions from the plan that go to pay qualified college expenses, such as tuition, also aren't taxed.

Those provisions give 529 plans a dramatic advantage over a custodial account. There aren't any kiddie tax complications with a 529 because the

New "Tax Extenders" Law Reaches Even Further

Unlike past legislation that granted a temporary reprieve to expired and expiring tax breaks, the new "Protecting Americans from Tax Hikes" (PATH) Act of 2015 goes further, modifying some provisions and making several of them permanent.

Permanent Tax Breaks in PATH Act

These provisions, most of which had expired after 2014, now have been reinstated for 2015 and made permanent, with some modifications.

Section 179 deduction: The maximum annual Section 179 deduction for buying new or used business property, which had plunged to $25,000 after 2014, is reinstated to $500,000. Once you've spent $2 million, the deduction is reduced by a dollar for every additional dollar you spend. These figures will be indexed for inflation in future years.

Depreciation write-offs: This lets you recover the cost of qualified leasehold, restaurant and retail improvements in 15 years rather than 39. This provision is extended retroactively and made permanent.

Child tax credit: Parents can benefit from an enhanced, potentially refundable child credit. Scheduled to expire after 2017, it's preserved for parents who owe taxes.

American Opportunity Tax Credit: Parents of college students will continue to be able to claim a maximum American Opportunity Tax Credit (AOTC) of $2,500, phased out based on modified adjusted gross income (MAGI). The credit maximum had been scheduled to drop to $1,800 in 2017.

Gifts of conservation property: Under the new law, if you donate property for conservation purposes you can take a deduction of up to 50% of your adjusted gross income (AGI)—or 100% if you're a farmer or rancher. That contrasts with the usual 30%-of-AGI limit. And you now can carry forward any excess amount for as long as 15 years instead of five years.

Charitable gifts from IRAs: If you're older than 70½ you again can give a maximum of $100,000 directly from your IRA to a charity without tax liability. That doubles to $200,000 if you give with your spouse.

Research credit: This credit, for spending by your business on research and development, is now permanent. The new law also includes other breaks for small businesses.

State and local sales taxes: This optional deduction, taken in lieu of a deduction for income taxes that you pay, is now a permanent part of the tax code.

Qualified small business stock: Investors in qualified small business stock (QSBS) can continue to exclude 100% of the gain from the sale of such stock. This tax exclusion was supposed to be cut to 50% for QSBS acquired after 2014, but now the 100% exclusion is permanent.

Employee transportation benefits: The tax law provides tax-free benefits for workers' mass transit passes, van pooling, and parking fees. The maximum monthly benefit for mass transit passes and van pooling had been reduced to $130 after 2014, but the new law restores a monthly maximum of $250 for all three fringe benefits (indexed to $255 for 2016).

Teacher classroom expenses: Teachers and other educators can deduct up to $250 of their out-of-pocket classroom expenses. This deduction will be indexed for inflation in future years.

Extended Tax Breaks in PATH Act

These provisions, most of which had expired after 2014, now are extended retroactive to January 1, 2015, for a period of at least two years.

- Your business can claim a bonus depreciation deduction of 50% (on the purchase of new equipment) for 2015 through 2017. That drops to 40% in 2018 and 30% in 2019.
- Parents can elect to deduct college tuition and fees, subject to an income-based phaseout, instead of a higher education credit.
- Employers again may claim tax credits for hiring workers who are military veterans or from specified disadvantaged groups.
- Some homeowners will benefit from tax-free mortgage forgiveness on debts of up to $2 million and a deduction for mortgage insurance premiums.
- A residential energy credit of up to $500 is available for qualifying energy-saving expenses.

Among other changes, the new law also postpones a tax on high- priced health insurance plans—mandated by the Affordable Care Act (ACA)—from 2018 to 2020; codifies the Taxpayer Bill of Rights; and extends liberal rules for Section 529 college saving plans. Contact us for information about how these provisions may affect your situation. ●

growth in the account you've set up for your child isn't taxed at all during the years leading up to college. And whereas you may owe capital gains tax when you sell investments in a custodial account to pay college expenses, that doesn't happen when you take money from a 529 to pay for college.

In addition, if your kids have a custodial account, they get control of the money once they reach the age of majority in your state—and they can use it any way they want, not just for college. That doesn't happen with a Section 529 plan—you stay in control of the account regardless of the age of the beneficiary.

A final disadvantage of a custodial account is that it may hurt a student's eligibility for federal financial aid because it counts as that student's asset, not that of the parents. Section 529 plans, in contrast, are treated as if they belong to the parents and aren't likely to affect financial aid eligibility.

So while there may be situations in which a custodial account makes sense in saving for college, in most cases a 529 plan will work better. ●

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 2016—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 2016, 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 2016, 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. ●

Social Security Loopholes

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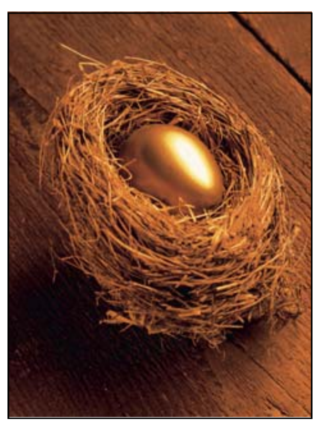
Under the new law, the file-and-suspend strategy won't be available beginning April 30, 2016, six months from the date of enactment. If you suspend your benefits, your spouse won't be entitled to the higher spousal benefit. However, if you're already using file-and-suspend, you're "grandfathered in" under the new law. In addition, you still can benefit from this technique if you qualify and apply for benefits before May 1, 2016.

2. Restricted application strategy. The new law also effectively ends the restricted application strategy, sometimes called "claim now, claim more later." Here, a spouse who is approaching FRA and is eligible for benefits on his or her own behalf *and* for spousal benefits files a restricted application to receive spousal benefits only. That spouse then waits until later—typically until age 70—to apply for benefits based on his or her own earnings record. This approach enables the spouse to build up more Social Security credits.



The new law eliminates the option of filing a restricted application for spousal benefits only. If you will turn age 62 after 2015, you must claim all of your benefits upon filing, based on whichever will give you a higher payment—your own earnings history or the spousal benefit. However, if you turned 62 before January 1, 2016, you still can use the restricted application strategy when you reach FRA.

The new law closes two loopholes that had been able to generate thousands of dollars in extra retirement benefits for some couples. But there still will be room for decisions that could boost your Social Security benefits. For example, it may be advantageous to delay benefits until you're past FRA, even without the file-and-suspend strategy. We would be glad to assist you in deciding how to proceed. ●

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