Schneider
WEALTH STRATEGIES

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WEALTH MANAGEMENT REPORT

Time Your Social Security Benefits For Top Results

What's the payoff for working most of your life and paying Social Security tax into the system? When your time to retire finally comes, you'll be eligible to receive Social Security benefits based on your work history and when you choose to begin receiving benefits. If you're married, you may have additional options for Social Security, even if one spouse has worked little or not at all.

A particular couple's optimal strategy depends on your age, the age of your spouse, and your health status, among other factors.

Your basic options for receiving benefits are to start early, begin benefits at your full retirement age (FRA), or to delay benefits until later.

- You can begin receiving Social Security retirement benefits as early as age 62, but if you do, you'll lock in smaller benefits than you would have gotten if you'd waited longer. If you retire at age 62, your benefit will be about 25% lower than if you waited until FRA.
- If you wait until FRA (also called "normal retirement age") to apply for benefits, there's no reduction. Your FRA depends on the year in which you were born. For most post-World War II Baby Boomers, the age is 66. However, FRA increases gradually and tops out at age 67 for those born after 1960.
- Finally, if you postpone your benefits until after FRA, you'll receive an increased monthly payment. For each year you wait, you'll get about 8% more, until you reach age 70. (Waiting past 70 doesn't increase your benefit amount.)

These basic rules apply to individuals. If you're married, you can claim benefits based on your own work record or you can get 50% of the benefit your spouse is entitled to, if that's higher.

Because Social Security benefits are guaranteed for life, starting early with a smaller benefit still could deliver significant income over your remaining years. Yet you may collect more overall if you start later or if you live for a long time. According to the Social Security Administration (SSA) the average life expectancy of someone at age 65 is now 84.3 years for a male and 86.6 years for a female.

What should a married couple do? Every situation is somewhat different, but consider these three common scenarios:

Scenario 1. Adam and Ellen are close in age and income. Because they're both in good health and enjoy their jobs, they plan on working past FRA. They also have enough savings,

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Grandparents Can Become Big Spenders For Their Offspring

The cost of raising children is well known. Recent estimates put it at about $250,000 before a child even enters college. But it's not just parents who end up paying a hefty "price." It's grandparents, too.

According to a January 2017 article in the *Miami Herald*, grandparents spend an average of $2,383 a year just to benefit their children's children. They pay for toys, school supplies, college savings, and even extracurricular lessons.

This breakdown shows the percentage of grandparents who give money to grandkids for each purpose:

- College savings: 19%
- Clothing: 55%
- Toys: 58%
- Non-cash gifts: 39%
- Cash gifts: 42%
- School vacations: 27%
- Family vacations: 16%
- Meals out/entertainment: 38%
- Extracurricular activities: 14%
- Allowance/payment for chores: 10%

And it's not just money that grandparents give. More than half of millennial parents say their parents provide at least an hour of child care or household help each week. The average grandparent went all out, spending 48 hours a year on tasks including primary child care, babysitting, homework help, and transportation to after-school activities.

Some 40% of grandparents said they offered the help without being asked, and 43% said they did it because "it makes me happy." Just make sure you build this into your retirement budget.

Please note, changes in tax and estate planning laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax and estate planning provisions of the issues presented herein, as Financial Advisors of Cambridge Investment Research, Inc we are not qualified to render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

Trust As IRA Beneficiary: Not Crazy

You may have heard that you can't name a trust as a beneficiary of your IRA—but in fact that is a perfectly legal option for IRA owners. But whether you should do it is a completely different story and requires further analysis.

IRAs can be complicated enough on their own without bringing a trust into the equation. And if you do name a trust as a beneficiary and then make a mistake with your account, the tax consequences could be devastating—so proceed with extreme caution. You'll need to work with an attorney experienced in these matters.

Why would you want to name a trust as your IRA beneficiary? It's not a tax-saving move and indeed could increase your tax bill. Still, there are valid reasons for using this planning technique. The primary benefit is protection against the IRA assets being squandered or attached by creditors. For example, you might want to pass money in an IRA to someone who is under age 21 and may not have much experience handling financial affairs or to a family member who is known to be a spendthrift. Having the account pass into a trust could enable a trustee to control how the money is distributed.

In a similar vein, you might intend to provide IRA funds to your spouse in a second or third marriage, but without shortchanging your children from an earlier marriage. In that case, you might leave the assets to a trust that pays out income to support a surviving spouse for life, with the remainder going to the children.

In any of these cases, naming a trust as your IRA beneficiary could be helpful—though, again, you'll need to work with an attorney with specialized knowledge of trusts and estate planning. Having the proper language in documents for the IRA and the trust is crucial.

One key aspect of such an arrangement is that the trust you name as IRA beneficiary should have people—and not an institution or your estate—as its beneficiaries. That could enable those beneficiaries to use "stretch IRA" planning techniques to lengthen the amount of time that assets can utilize an IRA's tax advantages. Although required minimum distributions (RMDs) still will have to happen, they'll be based on the life expectancies of the ultimate beneficiaries. The younger they are, the longer the money can be shielded from taxes. If more than one nonspouse beneficiary is named in a trust, the age of the oldest living beneficiary must be used. Consider separate trusts for each nonspouse beneficiary.

A variation on this theme calls for naming your spouse as the primary beneficiary and the trust as the contingent beneficiary. Such a setup provides greater flexibility because the surviving spouse may roll over the inherited IRA assets into his or her own IRA as part of post-mortem estate planning. ●

What Would Estate Tax Repeal Mean?

If President Trump and the Republican-led Congress get their way, the federal estate tax will be repealed. This could be good news for wealthy families that were facing a hefty estate tax bill in the near future. However, if certain changes accompanying the estate tax repeal also are enacted, other families may encounter an unpleasant income tax surprise.

Normally, an unlimited marital deduction shields transfers between spouses from federal estate and gift taxes, while a separate, finite exemption shelters gifts and bequests to other beneficiaries, including your children. The current exempt amount, which is indexed for inflation, is $5.49 million in 2017. The top tax rate on additional amounts is 40%.

In addition, heirs can benefit from a "step-up" in basis when they inherit assets—they're valued on the date of death rather than what was paid for them. So if someone acquired securities for $1 million and it was worth $5 million when that person died, the beneficiary's adjusted basis for income tax purposes is $5 million. The $4 million of appreciation that occurred before the death remains untaxed forever.

Assuming the estate tax is repealed effective for 2017, there would be no more federal estate tax worries for families inheriting an estate worth more than $5.49 million. However, under the latest proposals, Congress also would eliminate the step-up in basis (with an $10 million exception for farms and small business interests), and that could result in income tax problems for many families.

Returning to the example of giving $5 million of assets with a basis of $1 million to non-spouse beneficiaries, no estate tax would be due under the current law, thanks to

5 Steps To Realize An Early Retirement Dream

Have you dreamed about getting out of the rat race and retiring early? You could live a simpler life, pursue personal passions such as travel or recreation, and reduce your stress level. But you might think an early retirement is just out of your reach.

Early retirement doesn't have to be a pipe dream. Depending on your circumstances, it could become a reality through some diligent planning and dedication to your goals. These five steps may push you along the way:

Step 1: Plan on spending less. Don't give up if retirement planning calculators show you'll need much more than what you believe you conceivably can set aside. You can put a sizable dent in the "nut" you have to crack by significantly reducing your spending habits.

Remember that you won't be incurring commuting costs and a high-priced wardrobe for your job once you leave work. Furthermore, if you're hoping to travel around the world, you may be able to do it on a tighter budget than you thought. And simplifying your lifestyle—for example, maintaining just one car (or not even having one) instead of two —will provide savings.

Of course, life likely will throw you some curveballs, so be prepared for that, too. Build a cushion into your plan.

Step 2: Downsize your home. Part and parcel of the first step to early retirement is a reduction in housing costs. For most people, this is the single largest drain on savings. Do you really need that rambling colonial in the suburbs if your kids are grown and out of the house? This can be especially beneficial if the mortgage is paid off. You can sell the home at a sizable gain, move to a less expensive place, and pocket the difference.

Consider a retirement community if you're age 55 or older. If that's not the right fit, look for housing that's affordable but gives you the flexibility you want. For some early retirees, it's an apartment in a city with easy access to restaurants and stores.

Step 3: Secure adequate health insurance. One of those curveballs could be your health. Even if you're in reasonably good shape as you enter early retirement, there's no way to predict what will follow. And your retirement could last longer than you initially expected.

Medicare kicks in at age 65 and you can supplement it with another policy. Prior to that age, the Affordable Care Act (ACA) has made it easier for some people to retire early, but the future of the ACA, in this current climate, is in jeopardy. Conduct in-depth research to find health insurance policies that provide the necessary coverage at a cost you can handle. Depending on your situation, you might opt for a high-deductible plan. In any event, you can't go without health insurance!

If you expect to be traveling extensively, include this in your health insurance considerations. For instance, you may decide to obtain temporary travel insurance, based on your destinations.

Step 4: Maximize your investments. Saving more for retirement—and that includes how you invest your funds—may enable you to call it quits early.

Of course, everyone's situation is different. Put together a diversified portfolio that is aimed at your objectives while taking into account your personal risk tolerance. Frequently, your assets will involve a mix of stocks, bonds, mutual funds, and perhaps other investments such as real estate and exchange-traded funds (ETFs).

International investments, too, should probably be part of that mix, though such holdings bring special risks, including the potential that economic and political turmoil and currency fluctuations could affect the value of your investments.

Step 5: Count on taxes. Finally, don't dismiss taxes as a factor. Even if tax rates fall soon, they could rise again, and taxes always will erode your retirement savings to some degree. One strategy that may help is to move to a state with lower state tax rates.

Cashing in stocks during your retirement will result in capital gains, currently taxed at favorable rates, while distributions from retirement plans such as 401(k)s and traditional IRAs are taxed at higher rates for ordinary income. Also, payouts you take before age 59½ may be hit with a 10% tax penalty. (Roth IRA distributions can be tax-free, but you still may be penalized if you withdraw funds too early.) Remember that you must begin taking required minimum distributions (RMDs) from most retirement plans and traditional IRAs after age 70½. In addition, Social Security benefits may be subject to tax.

These and other steps can help take you closer to your dream of early retirement. ●

Income-generating investments such as stocks, bonds, mutual funds, ETFs and real estate may offer attractive yields and other benefits, but they are complex investments with unique tax characteristics and significant risks. As a result, these investments may not be suitable for all clients. It is important to understand all the features, characteristics and risks of any particular investment offering under consideration. Consult with a tax advisor before investing in such income-generating investments.

the $5.49 million exemption. But under the proposed reforms (and barring any exemptions), if beneficiaries carry over the basis on those shares and sell the assets for $5 million, they will have a taxable gain of $4 million, subject to the prevailing tax rates for capital gains.

Of course, this is just a hypothetical example and other rules (e.g., a $1 million exemption) could apply, but the potential for major income tax liability is real. Also, state estate taxes may still be a factor. Once it becomes clear whether estate tax reform will be enacted, and what shape it will take, it would be smart to review your estate planning to map out a strategy. ●

Tax Rules For Collectible Donations

Do you collect art, jewelry, coins, or stamps? Or maybe your passion is action figures or sports memorabilia. Whatever the focus, your collection could be valuable—and donating all or part of it to a museum or another nonprofit organization could earn you a substantial tax deduction. If you play your cards right, you may be able to write off the full value of your donation immediately.

The basic rule is that you can deduct the fair market value (FMV) of a collectible item you give to charity if selling it would have produced a long-term capital gain. So if you've owned the property for more than one year, the amount you deduct can include the item's appreciation in value since you acquired it. And you never will be taxed on that gain.

On the other hand, for a collectible you've owned for a year or less, your deduction is limited to your "basis" in the property (usually, your initial cost). These are essentially the same rules that apply to donations of securities.

Suppose you acquired a sculpture for $10,000 eleven months ago and it's now worth $15,000. If you donate it to a museum now, you can deduct $10,000 as a charitable contribution. However, if you wait just over a month longer, the full $15,000 is deductible.

Is there a catch? Yes, just one. When you donate "tangible personal property," such as collectibles, you can take a deduction based on FMV only if the property is used in a manner relating to the charity's tax-exempt function.

Let's go back to our example of the sculpture. If you give the artwork to a museum after you've owned it for more than a year and it is displayed for the public to see, you still can write off $15,000. However, if the nonprofit is your alma mater and school officials shove it into a storeroom, you can deduct only your basis, or $10,000.

In some cases, the higher deduction easily can be salvaged. For instance, if you give it to your college but insist the sculpture be displayed in a building where art majors can study it, you should qualify for the full deduction.

The other thing that's important is to have your item or collection appraised by an independent expert in the field to establish its value. This is an IRS requirement and will come in handy if the agency ever challenges the deduction amount. But here's a bonus—you may be able to deduct the cost of the appraisal as a miscellaneous expense, subject to the usual threshold for such write-offs.

Other tax rules, including limitations on itemized deductions, may come into play. But this is the way to get the most bang for your buck under current law. ●

Time Your SS Benefits

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plus their work income, to sustain them easily until age 70. Currently, Adam has a life expectancy of age 88, while Ellen's is age 90. If they elect early benefits at age 62, they would be entitled to an estimated lifetime benefit of almost $1.25 million. But if they wait until age 70 to apply for benefits and then live as long as expected, they could receive close to $125,000 more.

Scenario 2. In our next example, Robert and Jane have shorter life expectancies due to health issues. Currently, Robert has a life expectancy of age 79 and Jane has a life expectancy of age 76. If they claim benefits at FRA, it's estimated that the couple will receive almost $100,000 more than if they delayed benefits until age 70, based on their life expectancies.

Scenario 3. Jack and Jill are both in their early sixties. Jill is in better health than Jack. If they start benefits at age 62, let's say Jack would get $1,500 a month and Jill $750 per month. Those amounts would rise to $2,000 monthly for Jack and $1,000 for Jill if they claim benefits at FRA. However, by delaying benefits until age 70, Jack will receive about $2,650 a month. What's more, if Jill outlives Jack as expected, she is entitled to benefits based on 50% of Jack's higher monthly amount. Depending on how long Jill lives, her total benefits easily could increase by $50,000 or even more.

One of these scenarios might be similar to your situation, but you'll need to factor in your own variables—including how long you want to or need to work, as well as other financial and personal considerations and your health status—as you consider the best times for you and your spouse to begin receiving Social Security benefits. ●

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