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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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"The Market Is Going To Fluctuate"

It's hard to read a newspaper or watch the news and not be depressed. Bad news seems to be the order of the day, every day. Throw in the financial media's tendency to magnify every normal wiggle of the market to grandiose proportions, along with the uncertainty associated with any upcoming presidential election (especially this one), and it can be tough not to be worried about staying invested in global markets during such turbulent times.

The 46 years 1970 through 2015 cover the great bulk of the investing lifetimes of most of today's investors. Sometimes we forget what has happened in our economy and capital markets between 1970 and today. Even with big fluctuations, substantial gains were made.

An excellent chart "Markets Have Rewarded Discipline" pinpoints 46 years of significant negative events from oil embargo, inflation, big market downturns, dotcom crash, bank, debt and currency crisis. It illustrates the growth of a dollar over that period. Even with all the negative events, the market made significant gains.

According to Wall Street lore, an alert young man who once found himself in the happenstance presence of the legendary J.P. Morgan tried to seize the moment by seeking Mr. Morgan's opinion as to the future course of the stock market. The alleged reply has become classic. "Young man, I believe the market is going to fluctuate."

It did, it always has, and it always will.

So during periods of market volatility, what should an investor do? The answer: Keep market volatility in perspective, focus on longer time horizons, and maintain portfolio discipline. That's it. In practice, this is exceedingly difficult to do, and that's where Siena Wealth Management can help.

Ron Howard and the Siena Team

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. ●

What To Know About Social Security

The Social Security Administration (SSA) recently announced that there will be no increase in retiree benefits in 2016 because of the low inflation rate. Cost-of-living adjustments (COLAs), which are based on a consumer price index for urban wage-earners, have been standard fare and most retirees expect them. In fact, this is only the third time without a yearly increase in Social Security retirement benefits since COLAs were instituted in 1975. (The other two occurred in 2010 and 2011.)

It may be small consolation, but the Social Security wage base for payroll taxes also won't go up, remaining at $118,500 in 2016. This means the first $118,500 of wages you earn in 2016 is subject to a 6.2% tax (or twice that if you're self-employed). There's also a tax for Medicare of 1.45% on all earnings.

Furthermore, the SSA has announced that the limits under the "earnings test" (the amount you can earn from working without forfeiting Social Security benefits) also are unchanged.

Did this "freeze" for 2016 catch you by surprise? If so, you're not alone. People from all walks of life, including those who already have retired, often don't fully understand the rules for Social Security or are unaware of how complex the rules are. Use this quiz to test your personal knowledge of the subject:

1) The earliest age you can begin to receive Social Security retiree benefits is:

a) age 59½.
b) age 62.
c) age 65.
d) age 70.

2) The amount you will receive if you opt for early retirement may be reduced by as much as _____ for someone born in 1960 or later.

a) 5%
b) 10%
c) 20%
d) 30%

3) To get the maximum amount of Social Security benefits, you need to wait until ______ to begin receiving benefits.

a) age 59½

Balancing The Three Big Saving Priorities

Going back to ancient times, elders preached about the wisdom of saving money. In the modern era, three primary saving objectives have emerged for most people: (1) saving for retirement; (2) saving for your children's college educations; and (3) saving for emergencies. This "big three" hasn't changed much over the past century.

But plenty of things have shifted. Few companies still provide the sort of pension plan that can ensure a comfortable retirement without eroding your current salary. The cost of higher education continues to skyrocket. And with numerous other competing interests, not to mention other rising costs, it's getting harder and harder to set aside money for a rainy day.

Nevertheless, it's important to plan ahead. That usually means setting priorities for your various saving goals and remaining committed to your plan. It also requires finding the proper balance without focusing on one objective to the exclusion of the others. Keeping that in mind, here are some practical suggestions for addressing the "big three":

1. Retirement planning: This is generally the top priority because it encompasses the most people – including those with or without children – and it is critical for virtually everyone. Just think that you're likely to live about one-quarter to one-third of your life in retirement on a fixed income. With the latest medical advances, early retirees might even live close to half of their lives in retirement!

Typically, savings will come from a variety of sources, including tax-qualified retirement plans, taxable investments, and Social Security benefits. When possible, take advantage of employer-provided plans, like a 401(k) plan or pension plan, and IRAs. For 2015, you can defer up to $18,000 of salary to a 401(k) or $24,000 if you're age 50 or over and you may benefit from matching contributions from your employer. The limit for IRA contributions in 2015 is $5,500 or $6,500 if you're age 50 or over. With a Roth IRA, future payouts are generally tax-free.

Finally, the Social Security Administration (SSA) can project your future Social Security benefits based on your earnings history. But those benefits alone probably won't be enough to support you in retirement.

2. College planning: While retirement planning is essential, saving for college might appear even more crucial if your children are approaching the age at which they'll head off to school. Yet despite the timing – your kids' college years usually precede your retirement – don't forget that it's much easier to save while you're still in your prime earning years. Furthermore, there are a number of ways to boost your college savings funds.

One key vehicle is the Section 529 plan. Under these state-run plans, you can set aside money in an account where it's invested on a tax-deferred basis. When you withdraw funds to pay for qualified higher education expenses, the distributions are exempt from current tax. Although the details vary from state to state, the limits for contributions are generous, usually well into six figures.

Other techniques may be used alongside or even in lieu of a Section 529 plan. Those might include custodial accounts, Coverdell Education Savings Accounts (CESAs), loans, scholarships, and various types of trusts.

3. Emergency planning: This is generally the most difficult goal to achieve because, on its face, it doesn't appear as vital as the other two. Yet you should recognize the need to have cash reserves you can draw on in the event of an unexpected event such as a catastrophic medical condition or a job loss. This rainy day fund can help sustain your family in times of need. No one can foresee the future, so you need to plan for the worst and hope for the best.

The conventional thinking is to set aside enough to get you through about six months of hard times, but the exact amount will differ, depending on your personal circumstances and your ability to save. Don't try to do it all in one fell swoop. Instead, as part of a monthly budget, try to deposit a regular amount in a separate fund and add in any windfalls, such as an inheritance or an unexpected insurance check that may come your way.

Reminder: There's no need to sacrifice any one of these three goals. They are all important to your financial being, but there are times when you likely will prioritize one over the other. Strike the balance needed for your situation. ●

b) age 62
c) age 65
d) age 70

4) Spousal benefits are available to an unmarried ex-spouse if he or she was married to the beneficiary for at least:
a) 3 years.
b) 5 years.
c) 10 years.
d) 25 years.

5) Social Security retiree benefits are partially taxable if your benefits exceed ________ if you're a single tax filer and ________ if you're a joint filer.)
a) $10,000/$25,000
b) $25,000/$32,000
c) $50,000/$100,000
d) $200,000/$250,000

6) The age when a Baby Boomer born between 1943 and 1954 is able to receive full retirement benefits is:
a) age 62.
b) age 65.
c) age 66.
d) age 70.

7) For 2016, the maximum amount you're allowed to earn in the year you reach full retirement age—but before the month of your birthday—without forfeiting any benefits is:
a) $15,480.
b) $26,480.
c) $41,880
d) $55,880.

Answers: 1-b; 2-d; 3-d; 4-c; 5-b; 6-c; 7-c

Show More Life With A Living Trust

In some financial circles, a revocable living trust has been touted as a staple of estate planning that can even be used to replace a legally valid will. Normally, however, a living trust is viewed as a supplement to a will, not an outright replacement. Here's how this estate-planning technique may serve you best—in life and death:

It's important to understand the basic differences between a will and a living trust. Your "last will and testament" is a legal document determining how, when, and to whom your possessions will be distributed upon your death. It doesn't have any effect until you die. However, a will normally must go through probate before distributions are made. (Property passing through joint rights of survivorship may be one exception to that rule.)

In addition, a will alone may not achieve all of your estate-planning objectives. For instance, you can't impose any conditions on gifts made through a will.

A revocable living trust also is a legally valid document, and you may be able to transfer securities, real estate, or other property to the trust, and you can give the trustee power to manage it on behalf of the designated beneficiaries. Typically, you might name yourself as both the trustee and the initial beneficiary of the trust. At the same time, you can designate other family members—say, your spouse, your children, or both—as secondary beneficiaries entitled to receive remaining assets in the trust when it terminates.

With a living trust, you'll retain a high level of control while you're alive. For instance, you may be able to sell trust assets and keep the cash, amend the terms of the trust (for example, by changing secondary beneficiaries), or revoke it entirely. Unlike a will, a living trust allows you to place restrictions on gifts to beneficiaries. The trust becomes irrevocable when you die.

The main advantage living trusts have over wills is that the property transferred to the trust doesn't have to go through probate. Depending on the state in which you live, probate can be time-consuming. In addition, unlike a will, a living trust isn't available to public inspection, ensuring complete privacy with respect to the assets it holds and distributes.

But don't assume that a living trust is a panacea. It will require some time and work on your part to make all of the necessary arrangements. Also, if you devise a "pour-over will" to catch assets not in the living trust, the will must be probated anyway. Finally, despite some claims to the contrary, there are no estate-tax benefits for property transferred to a living trust.

Clearly, a living trust may provide valuable benefits, but it usually works best hand in hand with your will. We can help you work with your attorneys to find a solution that works for you. ●

Social Security Loopholes

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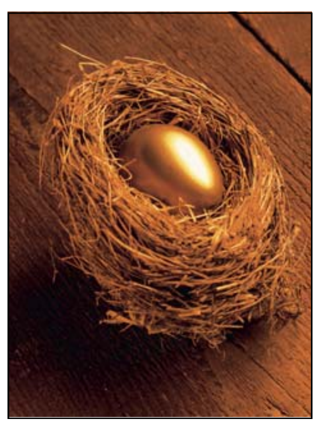
Under the new law, the file-and-suspend strategy won't be available beginning April 30, 2016, six months from the date of enactment. If you suspend your benefits, your spouse won't be entitled to the higher spousal benefit. However, if you're already using file-and-suspend, you're "grandfathered in" 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. ●