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Getting Ready To Retire? 7 Moves NOT To Make

If you're like most soon-to-be retirees, you're looking forward to leaving the rat race and moving into a comfortable lifestyle. But the golden years can lose their luster quickly if you don't consider all of the aspects of retirement. Here are seven things NOT to do when you retire:

1. DON'T live beyond your means. If you've been operating on a monthly budget while you've been working, there's no need to abandon this practice in retirement. You might need a budget now even more than you did before. After all, you won't have the same income from wages coming in. Rather, you're likely to be living on a fixed income that you draw from your investments, retirement plans, IRAs, and Social Security benefits. Splurging on things you really can't afford could do more damage than it would have before retirement.

2. DON'T cut things too closely. When you're fine-tuning your budget in retirement, give yourself some extra breathing room for unexpected expenses, such as repairs to your home or replacement of appliances. Try to save a little each month to build up a "rainy day" fund that you could use for emergencies. At the same time, just because you're retired doesn't mean you won't want to keep up with the latest technology or fashion trends. The trick is to create a budget that is generous enough to let you enjoy your retirement without putting your future at financial risk.

3. DON'T assume that you'll stay in good health. Even if you're in the pink of health now, there are no guarantees this will continue in retirement. To hedge your bets, make sure you have insurance that's able to provide plenty of protection. That includes health insurance, disability income insurance, and life insurance coverage that will cover your potential needs. Although Medicare can cover most regular health care costs, you'll also need supplemental coverage to avoid large out-of-pocket expenses. Factor the premiums for all of your coverage into your monthly budget.

4. DON'T become a couch potato. Once you no longer have to wake up and go to work every morning, it's easy to become sedentary, especially if you're not athletically inclined. But one of the keys to staying healthy is to remain active and vibrant. Find activities that interest you, and pursue your hobbies vigorously. And be sure to socialize with friends and family regularly. Spending your days watching TV and eating potato chips likely will shorten your life span.

5. DON'T leave investments on cruise-control. Maybe you've implemented an asset allocation strategy for the remainder of your

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Take Your RMD On Time, But You Might Want To Add To It

Under the rules for required minimum distributions (RMDs), you generally have to withdraw money from employer-sponsored retirement plans and traditional IRAs once you reach your 70s, whether you want to or not. But here's a way you might beat the IRS at its own game: Take out more than the required amount and convert the excess into a Roth IRA.

You have to start making annual withdrawals from retirement plans such as 401(k)s and IRAs in the year after the year you turn 70½. You may be able to postpone RMDs if you're still working for the employer providing a plan and you don't own the company. RMDs for the current year are calculated from life expectancy tables and your account balance on December 31 of the prior year.

The penalty for failing to take the required RMD is equal to 50% of the amount you should have withdrawn. That's added to the regular income tax you owe.

You can't convert an RMD into a Roth IRA. However, if you take out more than the amount required by the life expectancy tables, you can convert that excess into a Roth. After five years, any distribution from the Roth is tax-free. And if you don't need the money, it can stay in the Roth as long as you live and be passed along to your heirs.

Other factors may come into play. We can help you decide whether this could work for you.

Robert J. Pyle, CFP, CFA

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
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

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

New Law Tightens 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.

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. ●

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.

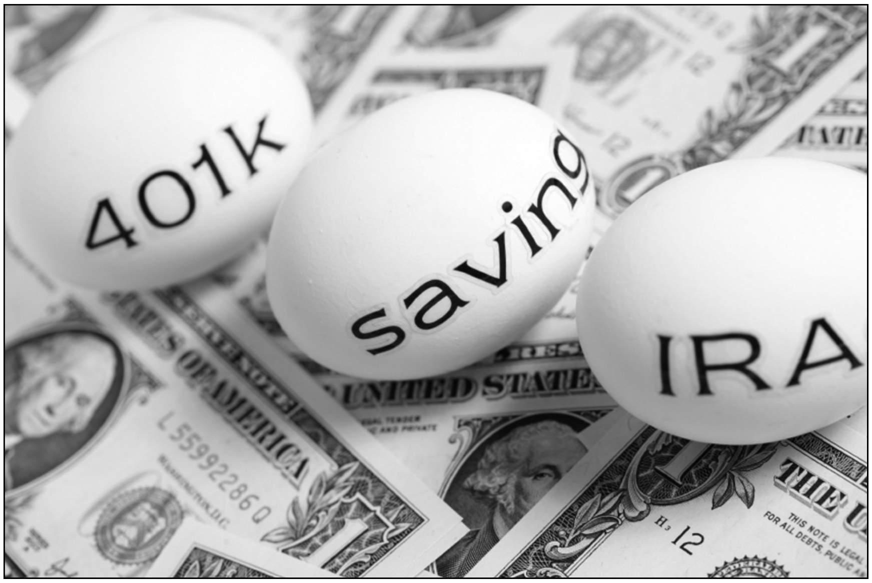
5. Personal changes: Finally, you may have had a change of heart about beneficiaries or developed different priorities or preferences. For example, you might decide to cut a daughter-in-law or son-in-law out of your will or decide to attach conditions to particular gifts or bequests. It’s your estate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

Retirement Plan Choices For The Self-Employed

If you are self-employed, have no employees, and have not yet started a retirement plan for yourself, you have several choices.

1. Traditional or Roth IRAs. You don't have to be self-employed to set up and contribute to these IRAs. For 2016, you can put up to $5,500 into a traditional or Roth IRA if you're under age 50. Contributions to a traditional IRA may be tax-deductible, depending on your income and whether you also contribute to a plan at work, and earnings in your account grow tax-deferred. A Roth is funded with after-tax dollars but withdrawals during retirement are normally tax-free. You can't contribute to a Roth if you're single and earn more than $117,000 in 2016 or are married and earn more than $184,000. But there are no income limits on converting a traditional IRA to a Roth; you just have to pay income tax on the amount you convert.



2. Simplified Employee Pension (SEP) IRA. If you can put more than $5,500 into a retirement plan for 2016, this may be the vehicle for you. You can put up to 25% of your self-employment income, up to a maximum of $53,000 in 2016, into a SEP. Contributions are tax-deductible and earnings grow tax-deferred.

3. SOLO 401(k). With this kind of plan, you may be able to contribute more than you can put into a SEP IRA. As an employee, you're able to contribute 100% of your earnings up to a maximum of $18,000, or $24,000 if you're 50 or older. Then, as your own employer, you can add up to 25% of your earned income—your net earnings from self-employment minus one-half of your self-employment tax and the amount you already contributed to the retirement plan—up to a maximum of $53,000 for 2016.

We can help with any of these plans. ●

7 Retirement Moves NOT To Make

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working years and transitioning into retirement. If the plan was designed properly, it should be suitable for your situation and reflect your personal tolerance for risk. However, your situation and your preferences are likely to evolve, requiring an update. That's why it's important to revisit your portfolio holdings and strategies on a regular basis.

6. DON'T forget about taxes. When you're counting on your income to sustain you through retirement, keep in mind how much of your projected earnings will be eroded by taxes. For example, if you sell securities to raise cash, your capital gains will be taxable, although you may benefit from a preferential tax rate of 15% on net long-term gains (20% if you're in the top regular income tax bracket). Most distributions from retirement plans are taxable as ordinary income and even Social Security benefits are subject to taxation. However, qualified distributions from a Roth IRA at least five years old are completely tax-free.

7. DON'T stop saving for retirement. Just because you're retiring doesn't mean that you should stop saving for retirement. In fact, with life expectancies continuing to expand, the opposite is true. You can continue to take advantage of tax-favored savings vehicles, including employer-sponsored retirement plans and IRAs if you work at least part-time. For instance, if you quit your main job but work as a freelance consultant, you could set up a Simplified Employee Pension (SEP) or another plan for your self-employed business. Note that plans such as 401(k)s and SEPs allow older workers to add "catch-up contributions" on top of the usual limits.

It takes a long time to build up sufficient savings for retirement but this can be undone quickly through a few costly missteps. DON'T make these mistakes. ●

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