The
FINANCIAL UPDATE
DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING

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Where's Your Retirement Income Gonna Come From?

One day you'll wake up and the financial planning objective that seemed so far in the future—your retirement—will be right around the corner. The big question—how can you maintain a comfortable lifestyle through your golden years—will be a real and present concern. To get ready for that day, you can identify the main sources of your retirement income and concentrate on making them grow.

Although every situation is different, you'll probably get your income from a combination of four main sources:

1. Employer-sponsored retirement plans and IRAs. While you're still working, you may be able to make tax-advantaged contributions to a 401(k) plan or to a Simplified Employee Pension (SEP) or to a Savings Incentive Match Plan for Employees (SIMPLE). Generally, the money you put into such accounts will grow untouched by taxes until it's withdrawn during your retirement. In 2015, you can defer up to $18,000 of salary to a 401(k) or $24,000 if you're age 50 or over, as well as receive possible matching contributions from your employer.

Similarly, you can benefit from saving in a traditional IRA, a Roth IRA or both. The IRA contribution ceiling for 2015 is $5,500 or $6,500 if you're age 50 or over. If you convert traditional IRA funds into a Roth, you'll owe tax in the year you transfer the money, but the Roth may provide tax-free distributions to you in the future.

2. Investments. Beyond withdrawals from 401(k)s, IRAs, and other such plans, you'll likely need other sources of income to help fill out your retirement "paycheck." For your taxable investments, you'll probably want to diversify among stocks, bonds, mutual funds, exchange traded funds (ETFs), annuities, and real estate, to name several of your main options.

Keep in mind that taxes will erode some of the value of these accounts, now and during retirement. Tax-free municipal bonds or municipal mutual funds can be a useful part of the mix, particularly if your earnings put you in the top income brackets.

3. Social Security. This can be another valuable supplement to other sources of income, but don't expect Social Security retiree benefits alone to be enough to fund a comfortable retirement. Your SS benefits normally will be based on your earnings history, your age, and your date of retirement. Although you can begin receiving reduced monthly benefits as early as age 62, the full retirement age (FRA) for most baby boomers is 66. That's when you can get what the government

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Financial Abuse Of The Elderly

According to a recent article in the *New York Times*, an estimated five million older Americans are financially victimized by caregivers, friends, family members, lawyers, or other advisors. With 10,000 people turning 65 every day for the next decade, a growing number are susceptible to exploitation. A study financed by the Justice Department notes that one in 20 older adults said they were financially mistreated in the recent past.

Some of the abuses are small and hard to detect but could continue over a long time. In other cases, someone convinces an older person to give them a power-of-attorney and then uses that authority to strip their bank accounts or take title to their home.

Some vulnerable elders "voluntarily" give uncharacteristically excessive financial reimbursement or gifts for needed care and companionship. Elders may give caregivers credit cards to go make purchases of drugs, groceries, and other items. They may also be influenced to give excessive amounts to charitable organizations.

It is important to have an awareness of these potential problems. We would be glad to talk with you about ways to protect yourself or your loved ones from financial abuse.

Sincerely,
Day & Ennis, LLC

7 Tax Baskets For Investments

At the risk of stating the obvious, it's not how much you earn from your investments that counts, it's how much you keep—and that can be eroded significantly by the "tax drag" on certain investments. That's why it makes sense to include tax-favored investments in your portfolio.

The accompanying chart shows seven different kinds of assets categorized according to the tax consequences of each one. For the most part, they're in order from the least tax-desirable assets on the left to the more favorable ones on the right.

1. Interest income: This includes interest you earn on money market funds, corporate bonds, and U.S. Treasury bonds. This income is fully taxable at ordinary income rates topping out at 39.6%.

2. Dividend income: Ordinary dividends from stocks are taxable as ordinary income. But most dividends that you get are "qualified," according to tax rules, and are taxed at preferential rates of 15% for most investors and 20% for those in the top income bracket. Meanwhile, those in the two lowest income brackets may enjoy a 0% rate on qualified dividends.

3. Capital gain income: Long-term capital gains—on the sale of securities you've held for more than a year—are taxed at the same preferential rates as qualified dividends, and you can reduce your tax bill further by offsetting such gains with capital losses. There's also a "step-up in basis" on inherited assets; for capital gains purposes, their tax basis is adjusted to their value at the time of the death of the person making the bequest.

4. Tax-exempt interest: This category includes income from municipal bonds and municipal bond funds. It's exempt from federal income tax (and possibly state income tax), but interest from "private activity" munis may be taxable if you have to pay the alternative minimum tax. Also, tax-exempt income may increase a retiree's tax on Social Security benefits.

5. Pension and IRA income: Income earned in employer-sponsored retirement plans—including pension, profit-sharing, and 401(k) plans—is tax-deferred until you make withdrawals during retirement, when distributions taxed as ordinary income. The same is true for traditional IRAs. But there's no step-up in basis if these assets are passed along to heirs and required minimum distributions (RMDs) begin after age 70½.

6. Real estate: This asset deserves special recognition. Capital gain is deferred until the property is sold, and may be postponed even longer under a Section 1031 exchange. In the meantime, depreciation deductions can help shield current income from tax. Rules for long-term capital gains also apply.

7. Roth IRA and insurance: Unlike withdrawals from traditional IRAs, most distributions from Roth IRAs are completely tax-free after five years and there are no RMDs. A cash value life insurance policy can provide both tax-deferred growth and tax-free payouts to your heirs.

Don't overlook the tax ramifications of investments. Find the proper mix of asset classes for your situation. ●

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

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 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 turn 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. ●

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. ●

Three Ways To Defuse Estate Rifts

It's impossible to know what will happen to your family after you're gone, but it's doubtful you're envisioning a bitter squabble over your possessions. Yet many a family is torn asunder when a patriarch or matriarch leaves this world.

Although there are no guarantees the claws won't come out, here are three documents that may reduce the potential for a serious rift:

1. A will. Virtually every adult with assets of any value needs a will. Typically, a will is the centerpiece of an estate plan and covers everything from appointing guardians for young children and addressing estate tax issues to determining who will receive your most valuable assets. A will gives you the opportunity to spell out who will inherit the beach house or expensive jewelry as well as other items of sentimental value.

A properly executed will is legally enforceable, so it's crucial that yours meets all of the technicalities of your jurisdiction. If you have significant assets you'll probably need to hire an attorney to draw up the document. It's likely that it will need to be updated in the future as your family circumstances change.

2. Personal property memorandum. Your will likely won't cover every last trinket you own, and it's a hassle to revise it all the time for minor changes. A personal property memorandum can supplement a will and may be referred to in the will itself. The memorandum can list all of your personal assets and your intended beneficiary for each item.

More than half of the nation's states have laws recognizing a personal property memorandum as legally binding. To avoid confusion, include a detailed description of your property. Make sure your executor has an official copy of both the will and the memorandum.

3. Letter of instruction. This is the last piece of the puzzle. Although a letter of instruction isn't legally binding, it can clarify certain issues and provide additional guidance to your heirs. The letter may include:

- The location of important documents, such as your will, insurance policies, titles, and deeds;
- Details of cemetery plots and funeral arrangements;
- Contacts for legal, tax, and financial information;
- A list and descriptions of all financial assets, including savings and checking accounts, stocks, bonds, and retirement accounts;
- The location of your tax returns for the past three years;
- The location of safe deposit boxes and keys; and
- Other special requests (for example, preferences for grandchildren attending college).

Last, but not least, your family members need to know about these three documents and where to find them. ●

Retirement Income Sources

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defines as your full benefit—and the longer you wait, up to age 70, the larger your monthly benefits will be.

If you choose to begin receiving Social Security benefits while you continue to work—but before you reach full retirement age—the amount of your benefits will be reduced by $1 for every $2 you earn beyond an earnings threshold that is $15,720 in 2015. During the year that you will reach FRA but before your birthday, you can earn up to $41,880 without penalty; exceed that amount and you'll lose $1 in benefits for every $3 you earn. But beginning in the month you reach full retirement age, you can earn as much as possible without any reduction in Social Security benefits.

4. Other income sources. Finally, you may be able to rely on income from various other sources, expected or unexpected. That might include inheritances or gifts from family members, a profit from selling your home or other property, insurance benefits, deferred compensation, early retirement packages, and other sources. If you have an interest in a business you might continue getting income even after you stop working, or you might sell your interest.

Any or all of these may have special tax implications you'll need to take into account. Note that you can exclude from your income a gain on a home sale of as much as $250,000—or up to $500,000 if you're a joint tax filer.

Once you analyze your situation, you may find that these four income sources will be enough for you to live on comfortably in retirement. But if you see that your projected income may be less than you expect to need, you may have to ramp up your savings, perhaps contributing more to your tax-advantaged retirement plans. We can help you map out a plan that will help you meet your goals. ●

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