On Balance

Enjoying Today, Preparing for Tomorrow

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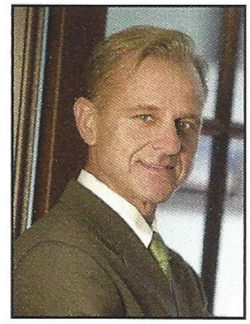
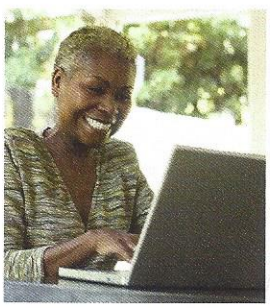


Charles Blozinski, CFP®

Tax Time

The filing deadline for most 2015 individual income tax returns is April 18, 2016, because Emancipation Day, a legal holiday in Washington, D.C., is celebrated this year on April 15. Taxpayers in Massachusetts and Maine have until April 19, 2016, to file because Patriots' Day, a state holiday, is celebrated this year on April 18.



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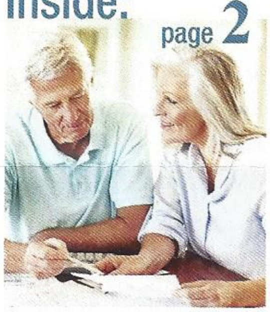
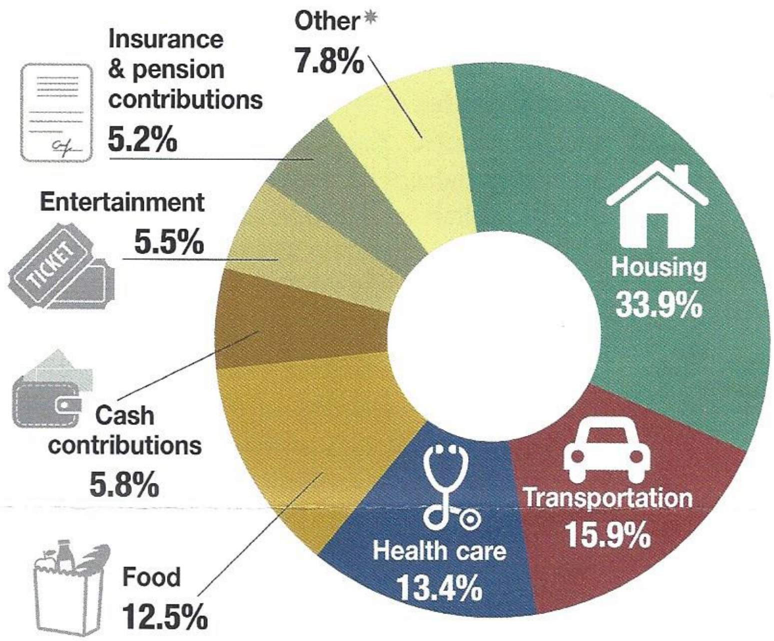


Senior Spending

Americans 65 and older spent an average of $43,635 in 2014 (most recent data), spread among these categories.



* Includes clothing (2.5%), personal care products & services (1.4%), alcoholic beverages (0.8%), education (0.5%), tobacco products & supplies (0.5%), reading (0.3%), and miscellaneous (1.8%).

Source: U.S. Bureau of Labor Statistics, 2015

PRACTICAL INSIGHTS FOR YOUR FINANCIAL GOALS

Changes to Social Security Claiming Strategies

The Bipartisan Budget Act of 2015, which maintains federal government funding through fiscal year 2017, included a section titled "Closure of Unintended Loopholes" that ends certain Social Security claiming options.

If you have not yet filed for Social Security benefits, it's important to understand how these new rules could affect your retirement strategy. Depending on your age, you may still be able to take advantage of the expiring claiming options. The changes should not affect current Social Security beneficiaries and do not apply to survivor benefits.

File and Suspend

Under the previous rules, an individual who had reached full retirement age could file for retired worker benefits — typically in order to allow a spouse to file for a spousal benefit — and then suspend his or her benefit. By doing so, the individual would earn delayed retirement credits (up to 8% annually) and claim a higher worker benefit at a later date, up to age 70. Meanwhile, his or her spouse could be receiving spousal benefits. For some married couples, especially those with dual incomes, this strategy increased their total combined lifetime benefits.

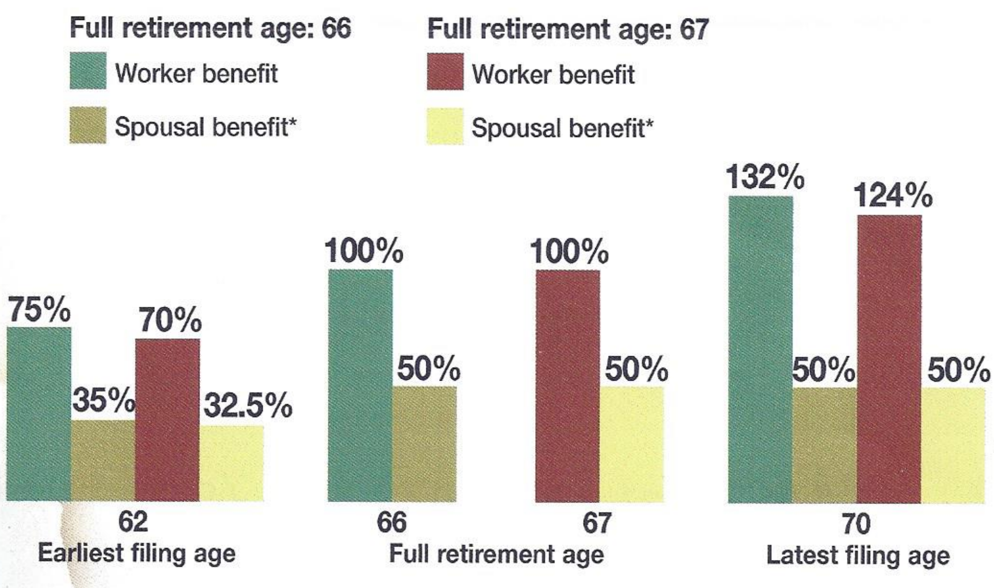
Under the new rules, effective April 30, 2016 (or later if the Social Security Administration provides additional guidance), no benefit will be paid while the primary worker's benefit is suspended. Thus, a spouse (and potentially an eligible ex-spouse) or a dependent child can receive spousal or dependent benefits only when the primary beneficiary is *receiving* benefits. Not only does this effectively end the file-and-suspend strategy for couples and families, but it also means that a worker can no longer suspend benefits and request a lump-sum payment for the entire period during which benefits were suspended. This claiming option helped beneficiaries who faced a change of circumstances, such as a serious illness.

The ability to file and suspend after reaching full retirement age is still available, but no benefits will be paid to anyone during the suspension. So someone can claim worker benefits and decide to suspend them after reaching full retirement age (e.g., because he or she went back to work), and then restart benefits later at a higher amount.

WAIT FOR MORE?

Full retirement age (FRA) currently ranges from 66 (for those born in 1943–1954) to 67 (for those born in 1960 and later). This chart shows how a beneficiary's claiming age affects the full retirement benefit (assuming FRAs of 66 and 67).

Note: Benefit amounts increase incrementally each month between filing ages 62 and 70.



*Percentages for the spousal benefit are based on the primary worker's full benefit amount.

Source: Social Security Administration, 2015

TIP: If you are 66 or older before the new rules take effect, you may still be able to take advantage of the combined file-and-suspend and spousal/dependent filing strategy.

Restricted Application

Under the previous rules, a married person who had reached full retirement age could file a "restricted application" for spouse-only benefits after his or her spouse filed for worker benefits. This allowed the individual to collect spousal benefits while earning delayed retirement credits on his or her own work record. In combination with the file-and-suspend option, this enabled both spouses to accrue delayed retirement credits while one spouse received spousal benefits — a type of "double-dipping" that wasn't originally intended.

Under the new rules, an individual who is eligible for both a spousal benefit and a worker benefit will be "deemed" to be filing for whichever benefit is higher and will not be able to change from one to the other later.

TIP: If you were born in 1953 or earlier, you are still eligible to file a restricted application for spousal benefits once you reach full retirement age.

Basic Social Security claiming options remain unchanged. You can file for a permanently reduced benefit starting at age 62, receive your full benefit at full retirement age, or postpone filing for benefits and earn delayed retirement credits, up to age 70.

Although the changes being implemented are relatively small, the bipartisan agreement may open the door to much-needed legislative action on Social Security.

Time for Munis?

Detroit's bankruptcy and Puerto Rico's debt crisis have cast municipal bonds in a negative light for some investors. However, these were isolated situations. The 12-month trailing default rate of the S&P Municipal Bond Index, which follows bonds of more than 22,000 issuers, was just 0.165% through the first half of 2015.[1]

In fact, the troubles in Detroit and Puerto Rico pushed some issuers to raise interest rates in order to attract investors. This might be a good time to consider the potential advantages of municipal bonds or municipal bond funds for your portfolio.

Government Borrowing

Municipal bonds, or munis, are debt obligations issued by state and local government entities. They typically fall into one of two categories.

General obligation bonds are issued to raise capital immediately, usually to cover expenses or refinance public debt. They are commonly repaid through taxes levied by the issuing agency.

Revenue bonds are issued to fund specific revenue-generating projects, such as utilities, sports stadiums, redevelopment projects, and toll roads. Revenue bonds are typically repaid from the revenues generated by the finished projects.

TAX-FREE ADVANTAGE

A taxable investment would need the following yield to be equivalent to a municipal bond or bond fund with a 3% tax-exempt yield.*

	Taxable equivalent yield			
4.00%	4.17%	4.48%	4.62%	4.97%
25%	28%	33%	35%	39.6%
	Federal income tax rate			

*Exemption from state income taxes would increase the equivalent yield.

Although munis usually pay lower interest rates than corporate bonds (because they are considered safer investments), the interest is generally exempt from federal income tax, as well as from state or local taxes if you live in the state where the bond was issued. The tax-free yield may be higher than the after-tax yield on taxable bonds, especially for investors in higher tax brackets.

Keep in mind that if a bond was issued by a municipality outside the state in which you reside, the interest may be subject to state and local income taxes. If you sell a municipal bond at a profit, you could incur capital gains taxes. Some municipal bond interest might be subject to the federal alternative minimum tax.

The return and principal value of bonds and bond fund shares fluctuate with changes in market conditions. When redeemed, they may be worth more or less than their original cost. Bond funds are subject to the same inflation, interest-rate, and credit risks associated with their underlying bonds. As interest rates rise, bond prices typically fall, which can adversely affect a bond fund's performance. Investments offering the potential for higher rates of return involve a higher degree of risk.

Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

1) S&P Dow Jones Indices, 2015

Community Property Laws: Yours, Mine, and Ours

The question of asset ownership can be contentious in the event of a divorce, but even in the happiest marriage it may be helpful to understand the laws regarding ownership of property obtained before and during the marriage.

Currently, nine states have community property laws: Arizona, California, Idaho, Louisiana, New Mexico, Nevada, Texas, Washington, and Wisconsin. (Alaska allows a married couple to opt for community property status.) In these states, all property earned or acquired by either spouse during their marriage is owned in equal shares by each spouse.

In other states, ownership is determined by "equitable distribution" laws, which means that property is divided fairly though not necessarily equally, typically by a judge if the couple cannot agree. If you have more than one home, the laws that affect your property ownership will depend on the state where you are officially "domiciled" according to IRS rules.

If you are domiciled in a community property state, identifying community property and income can be important when filing separate tax returns. Depending on the state, income derived from separate property may be community or separate. The IRS generally considers the following as separate property. *(Reference to "marriage" in this list also refers to a legal domestic partnership.)*

- Property owned separately before marriage
- Money earned while domiciled in a non–community property state

Community Property States

- Property received separately as a gift or inheritance during marriage
- Property bought with separate funds, or acquired in exchange for separate property, during marriage
- Property converted from community property to separate property through an agreement valid under state law
- The proportion of property bought with separate funds, if part was bought with community funds and part with separate funds

For estate planning purposes, there are no restrictions on how each spouse can give away his or her half of the community property, and a spouse is not required to leave his or her half to the surviving spouse, though many people do so. Be sure to consult a legal or estate planning professional familiar with the laws of your state before taking action regarding taxes or property distribution.

Do you have questions about the role that Social Security might play in your retirement income strategy? Make an appointment today to discuss your income options.

Charles Blozinski, CFP® offers his clients over 25 years of financial services experience. He provides independent, unbiased financial advice in a fee-only environment and does NOT accept commissions.