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Spring 2016

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Think Twice Before Counting on a COLA

Quiz: Which Birthdays Are Financial Milestones?

What are required minimum distributions (RMDs)?

Spring 2016

SPRING HAS ARRIVED!
We welcome the warmer temperatures and sunny days. Let us know if you have any fun trips or plans for this spring. We always like to hear about happenings with our clients. We hope you enjoy this newsletter and learn about events and happenings with our firm.

WELCOME SERENA BOGACZYK
We are happy to introduce the newest member to join our team, Serena Bogaczyk, as our new Client Relationship Manager. Serena will be your first contact with our company. She will work closely with our clients and handle the administrative duties for the firm. Serena began her professional career with Credit Suisse , a global investment bank. As a Financial Analyst in Product Control, Serena served as a financial guardian of the bank's trading activities. She is currently pursuing her Series 7 & 63 registrations with Commonwealth Financial Network. Please join us in welcoming Serena to our team.

JIM FINISHES STUDIES IN FINANCIAL TRANSITION PLANNING
Over the past two years, Jim has been involved in a program with Sudden Money® Institute (SMI) to become a Certified Financial Transitionist™This program will help Jim to expand his expertise in helping clients with major life transitions, including retirement, widowhood, divorce and dealing with an inheritance. He is in the final stage of this 2-year training course, completing 30 hours of core training, monthly coaching and 30 hours of continuing education. These techniques are not addressed in traditional financial planning, adding to Jim's unique skill set to assist our clients in their planning needs. Join us in congratulating Jim on this accomplishment.

Offering our SECOND OPINION SERVICE
As you know, we represent a select group of families for whom we can have a major beneficial impact. We gain most of our new clients through personal introductions. To help the people you care about make informed decisions, we offer our free Second Opinion Service.

From our evaluation, one of three things will happen:

1. We find that they are in good shape and advise them to stay where they are, OR

2. We find out that they could better their situation. If we are not a fit for their particular situation, we'll be happy to point them in the right direction to a financial advisor who can work with them more effectively, OR

3. We find gaps in their current plan and feel we could provide a significant advantage in helping them reach their goals. We would then explore the idea of working together with them.

Who do you care about the most that would benefit from this service? Let us know! We'd be happy to schedule an informal meeting over lunch with your personal introduction.

VITAL DOCUMENT LOCATOR
You are probably familiar with this tool, as Jim has likely discussed it at your review appointments, but have you taken the time to complete it? This critical document lists where all of your important documents can be found, from your will and estate planning documents to insurance policies and social security cards. It is important that you complete this form and share it with your spouse, extended family members as well as Jim, your Wealth Manager. If you do not have one of these documents to complete, please contact our office. We'd be happy to send one to you.

Think Twice Before Counting on a COLA

Will you receive a Social Security COLA in 2016?

The Social Security Administration has announced that, because of low annual inflation, Social Security recipients will not receive a cost-of-living adjustment (COLA) in their benefit checks in 2016. (Source: Social Security Administration press release, October 15, 2015)

****Source: 2015 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds, p.32***

The rising costs of food, gas, electricity, and health care can strain anyone's budget. The situation is even worse if your living expenses increase while your income stays the same, because your purchasing power will steadily decline over time. That's why cost-of-living adjustments, or COLAs, are especially valuable to retirees and others living on fixed incomes.

A COLA is an increase in regular income you receive (such as a Social Security or pension benefit) that is meant to offset rising prices. It's important protection because price inflation has occurred in most years during the last 40 years. However, a COLA may not be payable in years when inflation slows or declines.

How COLAs work

It's easy to think of a COLA as a "raise," but a COLA is meant to help you maintain your standard of living, not improve it. For example, let's say you receive a $2,000 monthly retirement benefit, and the overall cost of the things you need to purchase increases by 3% during the year. The next year, you receive a 3% COLA, or an extra $60 a month, to help you manage rising prices.

That 3% COLA doesn't sound like much, but without a COLA, inflation can seriously erode your retirement income. Assuming a 3% inflation rate, in just 10 years, the purchasing power of your monthly $2,000 benefit would drop to $1,520; in 25 years, the purchasing power of your benefit would be only $963, less than half of what you started with.

Who receives COLAs?

Social Security is the major source (and in some cases the only source) of inflation-protected retirement income for many Americans. COLAs are also commonly paid to retirees who are covered by state or federal pensions. However, most private pensions do not offer COLAs.

Less commonly, employers may offer COLAs as part of compensation packages. For an additional cost, you might also be able to purchase riders for certain insurance policies (such as disability income and long-term care policies) to ensure that the benefits you receive keep pace with inflation (subject to contractual terms, conditions, and limitations).

When there is no Social Security COLA

Social Security COLAs are officially announced each October and reflect the annual increase in the average Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W). The average CPI-W for the third calendar quarter of the last year a COLA was payable is compared to the average CPI-W for the third calendar quarter of the current year. Any percentage increase that results is the COLA for that year and will be payable to beneficiaries beginning in January of the following year. However, beneficiaries will not receive a COLA if there is no increase in the average annual CPI-W.

No COLA for Social Security beneficiaries also means no increase in two Social Security limits: the contribution and benefit base (also called the Social Security wage base) and the retirement earnings test exempt amounts.

The contribution and benefit base is the cap on the annual amount of wages and self-employment income subject to Social Security payroll taxes. The retirement earnings test applies only to people under full retirement age (FRA) who receive Social Security benefits and also have earnings from work. If your earnings from work exceed a specific annual limit--the retirement earnings test exempt amount--part of your Social Security benefit will be withheld. (There are actually two different earnings test exempt amounts. One limit applies before the calendar year you reach FRA, and a higher limit applies in the year you reach FRA, up until the month you reach FRA.)

Medicare beneficiaries are also affected. A "hold harmless" provision in the Social Security Act protects most Social Security beneficiaries from increases in their Medicare Part B premium when there is no Social Security COLA. However, about 30% of Medicare beneficiaries are not protected by this provision, including those subject to income-adjusted Part B premiums, those who are enrolled in Medicare but not receiving Social Security benefits, and those who are newly entitled to Medicare.* If you fall into one of these groups, you may pay a substantially higher Medicare Part B premium when no COLA is payable.

Putting COLAs in perspective

As important as COLAs are, they are still vulnerable to cutbacks. For example, pension plans that are underfunded may view reducing COLAs as a relatively simple way to cut costs, and some plans have attempted to eliminate COLAs altogether.

Consider taking additional measures to account for the effect of long-term inflation. For example, use realistic inflation and investment return assumptions when planning for retirement, maintain a diversified portfolio that reflects your time horizon and tolerance for risk, and consider investments that have historically held their own against inflation.

Quiz: Which Birthdays Are Financial Milestones?

What is the birthday rule?

The birthday rule may be used by health insurers to coordinate benefits when a dependent child is covered by the health plans of both parents and the parents are married or living together. The plan of the parent whose birthday falls earlier in the calendar year is generally the primary plan, providing benefits and paying claims first, and the plan of the other parent provides secondary coverage. If the parents share the same birthday, primary coverage is provided by the plan that has covered one parent the longest.

Source: National Association of Insurance Commissioners, naic.org

When it comes to your finances, some birthdays are more important than others. Take this quiz to see if you can identify the ages that might trigger financial changes.

Questions

1. Eligibility for Medicare coverage begins at what age?

a. 62

b. 65

c. 66

2. A child can stay on a parent's health insurance plan until what age?

a. 18

b. 21

c. 26

3. At this age individuals who are making contributions to a traditional or Roth IRA or an employer-sponsored retirement plan can begin making "catch-up" contributions.

a. 50

b. 55

c. 60

d. 66

4. This age is most often associated with drops in auto insurance premiums.

a. 18

b. 25

c. 40

d. 50

5. Individuals who have contributed enough to Social Security to qualify for retirement benefits become eligible to begin collecting reduced benefits starting at what age?

a. 62

b. 65

c. 66

d. 70

6. To obtain a credit card, applicants under this age must demonstrate an independent ability to make account payments or have a cosigner.

a. 16

b. 18

c. 21

Answers

1. b. 65. Medicare eligibility begins at age 65, although people with certain conditions or disabilities may be able to enroll at a younger age. You'll be automatically enrolled in Medicare when you turn 65 if you're already receiving Social Security benefits, or you can sign up on your own if you meet eligibility requirements.

2. c. 26. Under the Affordable Care Act, a child may retain his or her status as a dependent on a parent's health insurance plan until age 26. If your child is covered by your employer-based plan, coverage will typically end during the month of your child's 26th birthday. Check with the plan or your employer to find out exactly when coverage ends.

3. a. 50. If you're 50 or older, you may be able to make contributions to your IRA or employer-sponsored retirement plan above the normal contribution limit. These "catch-up" contributions are designed to help you make up a retirement savings shortfall by bumping up the amount you can save in the years leading up to retirement. If you participate in an employer-sponsored retirement plan, check plan rules--not all plans allow catch-up contributions.

4. b. 25. By age 25, drivers generally see their premiums decrease because, statistically, drivers younger than this age have higher accident rates. Gaining experience and maintaining a clean driving record should lead to lower premiums over time. However, there's no age when auto insurance rates automatically drop because rates are based on many factors, including type of vehicle and claims history, and vary by state and insurer; each individual's situation is unique.

5. a. 62. You can begin receiving Social Security retirement benefits as early as age 62. However, your benefits will be reduced by as much as 30% below what you would have received if you had waited until your full retirement age (66 to 67, depending on your year of birth).

6. c. 21. As a result of the Credit Card Act of 2009, credit card companies cannot issue cards to those under age 21 unless they can show proof that they can repay the debt themselves or unless someone age 21 or older with the ability to make payments cosigns the credit card agreement.

COMMONWEALTH *financial network*

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What are required minimum distributions (RMDs)?

Traditional IRAs and employer retirement plans such as 401(k)s and 403(b)s offer several tax advantages, including the ability to defer income taxes on both contributions and earnings until they're distributed from the plan.

But, unfortunately, you can't keep your money in these retirement accounts forever. The law requires that you begin taking distributions, called "required minimum distributions" or RMDs, when you reach age 70½ (or in some cases, when you retire), whether you need the money or not. (Minimum distributions are not required from Roth IRAs during your lifetime.)

Your IRA trustee or custodian must either tell you the required amount each year or offer to calculate it for you. For an employer plan, the plan administrator will generally calculate the RMD. But you're ultimately responsible for determining the correct amount. It's easy to do. The IRS, in Publication 590-B, provides a chart called the Uniform Lifetime Table. In most cases, you simply find the distribution period for your age and then divide your account balance as of the end of the prior year by the distribution period to arrive at your RMD for the year.

For example, if you turn 76 in 2016, your distribution period under the Uniform Lifetime Table is 22 years. You divide your account balance as of December 31, 2015, by 22 to arrive at your RMD for 2016.

The only exception is if you're married and your spouse is more than 10 years younger than you. If this special situation applies, use IRS Table II (also found in Publication 590-B) instead of the Uniform Lifetime Table. Table II provides a distribution period that's based on the joint life expectancy of you and your spouse.

If you have multiple IRAs, an RMD is calculated separately for each IRA. However, you can withdraw the required amount from any of your IRAs. Inherited IRAs aren't included with your own for this purpose. (Similar rules apply to Section 403(b) accounts.) If you participate in more than one employer retirement plan, your RMD is calculated separately for each plan and must be paid from that plan.

Remember, you can always withdraw more than the required amount, but if you withdraw less you will be hit with a penalty tax equal to 50% of the amount you failed to withdraw.

I'm thinking about storing financial documents in the cloud. What should I know?

Cloud storage--using Internet-based service providers to store digital assets such as books, music, videos, photos, and even important documents including financial statements and contracts--has become increasingly popular in recent years. But is it right for you?

Opinions vary on whether to store your most sensitive information in the cloud. While some experts say you should physically store items you're not willing to lose or expose publicly, others contend that high-security cloud options are available.

If you're thinking about cloud storage for your financial documents, consider the following:

- Evaluate the provider's reputation. Is the service well known, well tested, and well reviewed by information security experts?
- Consider the provider's own security and redundancy procedures. Look for such features as two-factor authentication and complex password requirements. Does it have copies of your data on servers at multiple geographic locations, so that a disaster in one area won't result in an irretrievable loss of data?
- Review the provider's service agreement and terms and conditions. Make sure you understand how your data will be protected and what recourse you have in the event of a breach or loss. Also understand what happens when you delete a file--will it be completely removed from all servers? In the event a government subpoena is issued, must the service provider hand over the data?
- Consider encryption processes, which prevent access to your data without your personal password (including access by people who work for the service provider). Will you be using a browser or app that provides for data encryption during transfer? And once your data is stored on the cloud servers, will it continue to be encrypted?
- Make sure you have a complex system for creating passwords and never share your passwords with anyone.