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Client Bulletin

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June 2015

Winning Social Security's Waiting Game

As more baby boomers move into their 60s, there is increased interest in Social Security retirement benefits. In particular, seniors must decide when to start. Currently, the full retirement age (FRA) for Social Security is 66. That age applies to people born from 1943 through 1954. FRA gradually increases for younger workers, reaching 67 for those born in 1960 or later.

You can start as early as age 62, but your benefits will be reduced. Alternatively, you can start as late as 70, which will entitle you to a higher benefit. If you start at 62, you'd get 75% of your FRA benefit; waiting after FRA increases your benefit by 8% a year. (Starting younger than FRA also will generate a reduction in benefits for those with substantial earned income, followed by a makeup in later years.)

Example 1: John Anderson is entitled to a Social Security benefit of $2,500 a month at age 66, his FRA. If he starts at age 62, with little or no earned income, John will receive $1,875 a month (75% of $2,500). As another option, John could wait as late as age 70 to start and receive $3,300 a month (132% of $2,500).

Thus, waiting from 62 to 66 increases John's benefit by 33.3%. Waiting still longer, from 66 to 70, increases his benefit by 32%. By the eyeball test, John will get a benefit increase of about 8% a year for waiting. That government-backed hike may sound extremely appealing, when bank accounts and money market funds pay next to nothing.

Closer look

Running the numbers through a calculator, it turns out that the higher benefit is really a compound annual increase of just over 7%. That's still appealing in these low-yield times.

However, the percentage increase actually fluctuates as John moves through his 60s. The periodic increases are fixed, as a percentage of FRA, but the deferred benefit increases in size as John grows older.

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What's Inside

Down With Divorces

The latest data show that the U.S. rate for divorce and annulments declined from 4.0 per 1,000 population in 2001 to 3.4 per 1,000 in 2012.

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Example 2: At age 63, John would receive 80% of his FRA amount: $2,000 a month. That's an increase of $125 a month, from his age 62 benefit of $1,875, so John's boost for the year is about 6.7%. By starting at age 64, though, John would get $2,166 a month, 86⅔% of his FRA amount. That's an 8.3% increase for waiting that year, from age 63 to 64.

Crunching through the numbers, the annual percentage increase drops, rises again and drops again until reaching a 6.5% hike from age 69 to a start at age 70.

Measuring the trade-off

Another way to make a decision on when to start Social Security is to see how much you give up by waiting, and how long the make-up period will be. If John waits from 62 to 70, he will relinquish 8 years of benefits (96 months) at $1,875 a month, or $180,000. He'd then collect $3,300 a month, an extra $1,425, so he'd catch up in 127 months. By the time John reaches age 81, he'd be ahead in total dollars collected, and the gap would grow in each succeeding month.

Example 3: For another perspective, consider Kate Bennett, who also has an FRA benefit of $2,500 a month. Kate continues to work, so starting before her FRA doesn't make sense. As mentioned, Kate could get a Social Security benefit of $3,300 a month by waiting until age 70.

However, Kate doesn't need to wait that long. By age 69, Kate could start Social Security and receive $3,100 a month. In the first year, she'd collect $37,200 in benefits. By waiting until 70, she'd get an extra $200 a month, so it would take her 186 months ($37,200 divided by $200) to catch up: 15½ years. Kate wouldn't be ahead in total benefits until she's approaching age 86.

Revising your outlook

The bottom line is that the ideal time to start Social Security can be a moving target. Starting at 62 might be a good choice if you need the cash immediately, have health concerns, or just want to get something back for all the taxes you've paid while you're young enough for active pursuits. If you decide not to start at 62, you might consider waiting until at least age 64 to start to get the sizable 63-64 bump in benefits.

On the other hand, if you're in relatively good condition, physically and financially, you might decide to defer after you reach FRA to get a larger Social Security benefit. Remember that you're not locked in to an age 70 start if you can delay; you can start any time in between 66 and 70, if waiting is no longer practical.

Keep in mind that these calculations are relatively simple as they ignore taxes on benefits, cost-of-living adjustments and any interim investment earnings. If you want to explore this topic further, our office can provide detailed projections for your specific circumstances. ■

Control the Costs of Weddings in Your Family

If future weddings are on your mind in June, be prepared for sticker shock. The Knot website reports that the average U.S. wedding costs about $30,000, not including the honeymoon. Costs vary widely by location: The average is well over $50,000 in the New York City area, but it's close to $16,000 in Western states such as Idaho and Utah.

Wherever the wedding might be, it's likely to be a sizable expense. Some savvy planning can keep your outlay under control without detracting from a festive occasion.

Cost sharing

Traditionally, the bride's parents pay for the wedding. This tradition apparently goes back a long way, in many societies, dating from the time when the bride's family provided a dowry to help enable the new husband to take care of his wife and any future children. If your daughter or son is getting married relatively young and also is in school or a recent graduate, it still may be the case that the parents pay for all or most of an engagement party, the wedding reception, flowers, music, photography, and so on. With today's shifting societal norms, chances are you could end up contributing

Did You Know?

Social Security retirement benefits are based on your 35 years of highest earnings. The earnings that are counted are subject to a cap: the maximum amount subject to Social Security taxation each year. The figure for 2015 is $118,500; the earnings cap was $3,000 when the Social Security program began in 1937.

Source: The Wall Street Journal

no matter which side of the happy couple you fall on.

Today, though, many couples are getting married (or remarried) later in life, perhaps after establishing careers and earning significant incomes. Although some of those weddings are still fully financed by one family, it's increasingly common for costs to be split between the couple's families as well as by the couple themselves. Thus, this advice may not only be relevant to the parents of future brides and grooms but also to unmarried individuals looking forward to their own nuptials.

In some situations, the relative resources of these parties will help determine the sharing arrangements. The division of expenses should be established early in the wedding planning process. This might be awkward at first but may help reduce future tension over who pays what.

Begin with a budget

Just as you wouldn't shop for a new car or a second home without some price parameters, the same is true for a wedding. You should be sure that everyone's expectations are in alignment. If you have a $25,000 wedding in mind, for example, but your daughter expects a $50,000 wedding, someone is going to be upset unless an agreement can be reached.

Brides- and grooms-to-be will differ in their financial expertise. Some may anticipate the wedding they'd like and know the total probable cost within a few thousand dollars; others may just have an idea of where they'd like to celebrate their marriage and how many people they plan to invite without any notion of the bills that will need to be paid.

Before setting a budget, research can help. Start with online fact-finding and go to on-site visits. Once the couple has seen a few possible places and learned the cost of a reception with various numbers of guests at those venues, they likely will have a better idea of the costs involved, so an overall budget can be more realistic.

If you are going to be paying a substantial portion of the wedding expenses, you should play a role in establishing a budget. One tactic is to give the to-be-weds a check for X dollars upfront, to cover the wedding expenses. They can spend more, from their own pockets or from the other parents'. Or, they can spend less and keep the balance as a wedding gift.

Once you have a working budget, try to stay with it. Cut costs where you won't cut into the joy of the occasion. A Friday or Sunday wedding can be just as memorable as a Saturday event—and perhaps much less expensive. The same is true for out-of-season dates; a December wedding can offer more value than one in June. No matter when the wedding is scheduled, trimming the guest list to those whose presence is absolutely necessary or desirable can provide certain cost reduction.

Remember that a wedding is a major lifetime event, not a profit-making venture. Be ready to go over the budget and decide if you can manage to contribute a bit more to keep everyone smiling. Starting with a budget can help to keep supplementary requests modest and hold down the total tab. ■

Trusted Advice

Wedding Tax Tactics

- The costs of renting a place for a reception are not tax deductible, but you'll be able to deduct donations to the church, synagogue, or nonprofit organization where the wedding is held. Our office can help determine if a deduction is feasible.
- After a wedding reception, you might be able to take a deduction for donating flowers and leftover food to an appropriate charity. Make advance arrangements to contribute perishables.
- Similarly, other items (candles, decorations, bridesmaids' dresses, even a bridal gown) might be donated to generate a charitable deduction.

Keep Your Company After a Divorce

Going through a divorce can be financially as well as emotionally devastating. That's especially true for business owners.

Example: Jack Barnes has built his small company into a thriving enterprise. However, the time he spent on the business has taken its toll. Now Jack is going through a divorce, and his wife, Sharon, stands to receive part of the company in a property settlement. Jack does not relish losing absolute control of the company, and he does not want to have to deal with his ex-wife as a co-owner. In this situation, what can Jack do to avoid such results?

True value

One approach is to begin by determining a likely outcome of any divorce agreement. Speak with an attorney—one who specializes in family law, not necessarily your cousin with a general practice—about your state's treatment of marital property. What portion of the

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company's value is likely to go to your spouse, considering its worth when you went into the marriage and its growth since then?

At the same time, you should get a realistic valuation of your company from a reputable source. Depending on what's practical, you might use an appraiser who is acceptable to both spouses or just hire one on your own. Either way, this should help you to get an idea of what your obligation might be when terms are finalized.

Say your attorney indicates that your spouse could be awarded half the value of your company, and the business is valued at $3 million. You'll know that your spouse could receive in the neighborhood of $1.5 million from your company's value after a divorce.

Setting goals

With such knowledge, you can decide how to proceed. Should you put your company up for sale and divide the proceeds, pursuant to the divorce settlement, then start a new business of your own? Sell some shares to a more desirable partner to raise cash to buy out your spouse? Just hand over the shares and live with your ex as a co-owner? Or do you really want to maintain your current ownership in your existing firm?

Assuming you want to keep your company and not have to work with your former spouse, you'll have to make some arrangement to provide your portion of other assets instead of company shares. That could mean giving up real estate, securities, bank accounts, retirement accounts, vehicles, collectibles, and so on. Keep in mind that tax-deferred retirement accounts may have a low value to you in the future, if you expect to be in a high tax bracket when taking withdrawals.

If you lack enough assets for a full trade-off, you might have to borrow against your company's value to fulfill your part of the agreement. Another possibility is to enter into a property settlement note, sometimes known as a *structured settlement*. In effect, this is a buyout over time, using anticipated cash flow from the business to make up for the assets (shares in your company) you'll be retaining. As is the case with any note, this arrangement should have a market rate of interest and a definite term, which might be over many years.

Be pre-prepared

Ending a marriage is seldom pleasant, but the financial damage may be reduced if you gather the facts and make thoughtful decisions. Aim for an agreement that's fair to both parties; proceed as quickly as possible, so you can hold down legal costs and get back to work without divorce on your mind.

Often, the best way that a business owner can minimize the financial fallout from a divorce is to plan ahead. If you own a company and plan to get married, suggest a prenuptial agreement that designates your company as an asset you'll retain. Bringing up a prenup before a wedding may not be the most romantic move you can make, but you might be able to deflect the blame by telling your intended spouse that such an agreement is your CPA's idea. ■

TAX CALENDAR

JUNE 2015

June 15

Individuals. If you are not paying your 2015 income tax through withholding (or will not pay enough tax during the year that way), pay the second installment of your 2015 estimated tax.

If you are a U.S. citizen or resident alien living and working (or on military duty) outside the United States and Puerto Rico, file Form 1040 and pay any tax, interest, and penalties due for 2014. If you want additional time to file your return, file Form 4868 to obtain four additional months to file. Then, file Form 1040 by October 15.

Corporations. Deposit the second installment of estimated tax for 2015.

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in May if the monthly rule applies.

JULY 2015

July 15

Employers. For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in June if the monthly rule applies.

July 31

Employers. For Social Security, Medicare, and withheld income tax, file Form 941 for the second quarter of 2015. Deposit any undeposited tax. If your tax liability is less than $2,500, you can pay it in full with a timely filed return. If you deposited the tax for the quarter in full and on time, you have until August 10 to file the return.

For federal unemployment tax, deposit the tax owed through June if more than $500.

If you maintain an employee benefit plan with a calendar year end, file Form 5500 or 5500-EZ for calendar year 2014.

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