SA-KG ADVISORS QUARTERLY

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 Generally, the money you put into such accounts will grow untouched by taxes until it's withdrawn during your retirement.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 2016, 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 2016 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 defines as your full benefit—and the

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What Women Want: An Equal Share Of The Financial Pie

To paraphrase an old advertisement, women have come a long way in recent years, but there's still room for growth.

The glass ceiling for women in the workplace is being raised slowly and married women are becoming more involved in family financial decision-making. However, recent surveys suggest many women still lack confidence when it comes to investment and retirement planning.

According to Hearts & Wallets, a retirement marketing research firm, female spouses in heterosexual marriages still take a backseat to their husbands in retirement planning, with only 43 percent of wives helping formulate those plans. Yet four out of five in this group were approaching retirement age, and women, who tend to outlive men, have a particular need for good planning.

Meanwhile, women tend to be less aggressive than men in the investment arena. A long-term study by Berkeley's Haas School of Business found that men's greater confidence in their investment abilities causes them to trade more often than women. Of course, that's not necessarily an advantage, and women's greater aversion to investment risk may help avoid catastrophic results, especially when the stock market is declining.

Anyone can reap financial rewards through advance planning and portfolio adjustments. That applies to both genders.

How Low Can Capital Gains Tax Go?

What's better than paying today's 15% or 20% maximum tax rates on long-term capital gains and qualified dividends? How about paying 0%? That's not a misprint. If you qualify, the tax on a portion or all of your net long-term capital gain is an absolute zero.

What's more, this unique tax break isn't necessarily reserved for people who don't make much money. In some cases, it also can benefit those who normally earn high incomes.

According to basic rules for taxing capital gains, short-term gains from selling stocks, bonds, or other capital assets that you've owned for a year or less are taxed at ordinary income rates reaching as high as 39.6%. If you've owned the assets for more than one year, your profit on a sale is treated as a long-term capital gain and taxed at a maximum of 15% for those in most tax brackets or 20% if you're in the top ordinary income bracket of 39.6%.

However, short-term and long-term gains for the year may be offset in whole or in part by losses you've taken on other asset sales.

Similar rules apply to "qualified" dividends that meet specified requirements, including that you've held the stock in question for at least 61 days.

But some investors can do even better than these favorable rates. If you are in either of the two lowest ordinary income tax brackets—with rates of 10% or 15%—your net long-term gains will be taxed at the 0% rate. This tax break often is available to young children and other investors who don't earn much in wages. But don't assume you can't jump on the bandwagon.

For example, suppose you earn an annual salary of $100,000 but you expect to incur a business loss of $50,000 from your S corporation in 2016. That leaves you with $50,000 in taxable income for the year to report on a joint tax return.

Under tax rates in effect for 2016, the upper threshold of the 15% tax bracket is $75,300. In other words, you can realize a long-term capital gain of up to $25,300 without passing that upper limit and without paying any tax on the gain. And if you realize a larger gain, you still can benefit from the 0% tax on the first $25,300.

Now is a good time to assess your personal situation for the year. If you're in line for the 0% tax rate and it otherwise makes good investment sense to sell assets on which you'll realize long-term capital gains, don't miss out on the opportunity. ●

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. ●

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Retirement Income Sources

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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 2016. 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 taxable 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. ●