Joe Ciaramitaro Summer Update

Coaching Your Financial Future

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How Does Divorce Affect Social Security Retirement Benefits?

One of the challenges of planning for retirement is that an unexpected event, like divorce, can dramatically change your retirement income needs. If you were counting on your spouse's Social Security benefits to provide some of your retirement income, what happens now that you're divorced?

What are the rules?

Even if you're divorced, you may still collect benefits on your ex-spouse's Social Security earnings record if:

- Your marriage lasted 10 years or longer
- You are age 62 or older
- Your ex-spouse is entitled to receive Social Security retirement or disability benefits, and
- The benefit you're entitled to receive based on your own earnings record is less than the benefit you would receive based on your ex-spouse's earnings record

If you've been divorced for at least two years, and the other requirements have been met, you can receive benefits on your ex-spouse's record even if he or she has not yet applied for benefits.

How much can you receive?

If you begin receiving benefits at your full retirement age (66 to 67, depending on your year of birth), your spousal benefit is equal to 50% of your ex-spouse's full retirement benefit (or disability benefit). For example, if your ex-spouse's benefit at full retirement age is $1,500, then your spousal benefit is $750. However, there are several factors that may affect how much you ultimately receive.

Are you eligible for benefits based on your own earnings record? If so, then the Social Security Administration (SSA) will pay that amount first. But if you can receive a higher benefit based on your ex-spouse's record, then you'll receive a combination of benefits that equals the higher amount.

Will you begin receiving benefits before or after your full retirement age? You can receive benefits as early as age 62, but your monthly benefit will be reduced (reduction applies whether the benefit is based on your own earnings record or on your ex-spouse's). If you decide to receive benefits later than your full retirement age, your benefit will increase by 8% for each year you wait past your full retirement age, up until age 70 (increase applies only if benefit is based on your own earnings record).

Will you work after you begin receiving benefits? If you're under full retirement age, your earnings may reduce your Social Security benefit if they are more than the annual earnings limit that applies.

Are you eligible for a pension based on work not covered by Social Security? If so, your Social Security benefit may be reduced.

Planning tip: *If you decide not to collect retirement benefits until full retirement age, you may be able to maximize your Social Security income by claiming your spousal benefit first. By opting to receive your spousal benefit at full retirement age, you can delay claiming benefits based on your own earnings record (up until age 70) in order to earn delayed retirement credits. This can boost your benefit by as much as 32%. Because deciding when to begin receiving Social Security benefits is a complicated decision and may have tax consequences, consult a professional.*

What happens if one of you remarries?

Benefits for a divorced spouse are calculated independently from those of a current spouse, so your benefit won't be affected if your spouse remarries. However, if you remarry, then you generally can't collect benefits on your ex-spouse's record unless your current marriage ends. Any spousal benefits you receive will instead be based on your current spouse's earnings record.

What if your ex-spouse dies?

If your marriage lasted 10 years or more, you may be eligible for a survivor benefit based on your ex-spouse's earnings record.

For more information on how divorce may affect your Social Security benefits, contact the SSA at (800) 772-1213 or visit socialsecurity.gov.

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Three College Savings Strategies with Tax Advantages

Age-Based Tips for Making the Most of Your Retirement Savings Plan

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Three College Savings Strategies with Tax Advantages

529 plan fast facts

Total assets in 529 plans reached a record $247.9 billion at the end of 2014 (up from $227.1 billion in 2013). The total number of accounts was 12.1 million (up from 11.6 million in 2013), and the average account balance was $20,474 (up from $19,584 in 2013). Source: College Savings Plans Network, 529 Report: An Exclusive Year-End Review of 529 Plan Activity, March 2015

To limit borrowing at college time, it's smart to start saving as soon as possible. But where should you put your money? In the college savings game, you should generally opt for tax-advantaged strategies whenever possible because any money you save on taxes is more money available for your savings fund.

529 plans

A 529 plan is a savings vehicle designed specifically for college that offers federal and state tax benefits if certain conditions are met. Anyone can contribute to a 529 plan, and lifetime contribution limits, which vary by state, are high--typically $300,000 and up.

Contributions to a 529 plan accumulate tax deferred at the federal level, and earnings are tax free if they're used to pay the beneficiary's qualified education expenses. (In his State of the Union speech in January, President Obama proposed eliminating this tax-free benefit but subsequently dropped the proposal after a public backlash.) Many states also offer their own 529 plan tax benefits, such as an income tax deduction for contributions and tax-free earnings. However, if a withdrawal is used for a non-educational expense, the earnings portion is subject to federal income tax and a 10% federal penalty (and possibly state tax).

529 plans offer a unique savings feature: accelerated gifting. Specifically, a lump-sum gift of up to five times the annual gift tax exclusion ($14,000 in 2015) is allowed in a single year per beneficiary, which means that individuals can make a lump-sum gift of up to $70,000 and married couples can gift up to $140,000. No gift tax will be owed if the gift is treated as having been made in equal installments over a five-year period and no other gifts are made to that beneficiary during the five years. This can be a favorable way for grandparents to contribute to their grandchildren's education.

Also, starting in 2015, account owners can change the investment option on their existing 529 account funds twice per year (prior to 2015, the rule was once per year).

Note: *Investors should consider the investment objectives, risks, fees, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. Finally, there is the risk that investments may lose money or not perform well enough to cover college costs as anticipated.*

Coverdell education savings accounts

A Coverdell education savings account (ESA) lets you contribute up to $2,000 per year for a child's college expenses if the child (beneficiary) is under age 18 and your modified adjusted gross income in 2015 is less than $220,000 if married filing jointly and less than $110,000 if a single filer.

The federal tax treatment of a Coverdell account is exactly the same as a 529 plan; contributions accumulate tax deferred and earnings are tax free when used to pay the beneficiary's qualified education expenses. And if a withdrawal is used for a non-educational expense, the earnings portion of the withdrawal is subject to income tax and a 10% penalty.

The $2,000 annual limit makes Coverdell ESAs less suitable as a way to accumulate significant sums for college, though a Coverdell account might be useful as a supplement to another college savings strategy.

Roth IRAs

Though traditionally used for retirement savings, Roth IRAs are an increasingly favored way for parents to save for college. Contributions can be withdrawn at any time and are always tax free (because contributions to a Roth IRA are made with after-tax dollars). For parents age 59½ and older, a withdrawal of earnings is also tax free if the account has been open for at least five years. For parents younger than 59½, a withdrawal of earnings--typically subject to income tax and a 10% premature distribution penalty tax--is spared the 10% penalty if the withdrawal is used to pay a child's college expenses.

Roth IRAs offer some flexibility over 529 plans and Coverdell ESAs. First, Roth savers won't be penalized for using the money for something other than college. Second, federal and college financial aid formulas do not consider the value of Roth IRAs, or any retirement accounts, when determining financial need. On the flip side, using Roth funds for college means you'll have less available for retirement. To be eligible to contribute up to the annual limit to a Roth IRA, your modified adjusted gross income in 2015 must be less than $183,000 if married filing jointly and less than $116,000 if a single filer (a reduced contribution amount is allowed at incomes slightly above these levels).

And here's another way to use a Roth IRA: If a student is working and has earned income, he or she can open a Roth IRA. Contributions will be available for college costs if needed, yet the funds won't be counted against the student for financial aid purposes.

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Age-Based Tips for Making the Most of Your Retirement Savings Plan

***1** This hypothetical example is for illustrative purposes only. Investment returns will fluctuate and cannot be guaranteed.*

***2** All investing involves risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful. Investments offering a higher potential rate of return also involve a higher level of risk.*

***3** Asset allocation is a method used to help manage investment risk; it does not guarantee a profit or protect against a loss.*

***4** There is no assurance that working with a financial professional will improve your investment results.*

***5** Withdrawals from your retirement plan prior to age 59½ (age 55 in the event you separate from service) may be subject to regular income taxes as well as a 10% penalty tax.*

No matter what your age, your work-based retirement savings plan can be a key component of your overall financial strategy. Following are some age-based points to consider when determining how to put your plan to work for you.

Just starting out

Just starting your first job? Chances are you face a number of financial challenges. College loans, rent, and car payments all compete for your hard-earned paycheck. Can you even consider contributing to your retirement plan now? Before you answer, think about this: The time ahead of you could be your greatest advantage. Through the power of compounding--or the ability of investment returns to earn returns themselves--time can work for you.

***Example:** Say at age 20, you begin investing $3,000 each year for retirement. At age 65, you would have invested $135,000. If you assume a 6% average annual rate of return, you would have accumulated $638,231 by that age. However, if you wait until age 45 to invest that $3,000 each year, and earn the same 6% annual average, by age 65 you would have invested $60,000 and accumulated $110,357. By starting earlier, you would have invested $75,000 more but would have accumulated more than half a million dollars more. That's compounding at work. Even if you can't afford $3,000 a year right now, remember that even smaller amounts add up through compounding.*[1]

Finally, time offers an additional benefit to young adults: the ability to potentially withstand greater short-term losses in pursuit of long-term gains. You may be able to invest more aggressively than your older colleagues, placing a larger portion of your retirement portfolio in stocks to strive for higher long-term returns.[2]

Getting married and starting a family

At this life stage, even more obligations compete for your money--mortgages, college savings, higher grocery bills, home repairs, and child care, to name a few. Although it can be tempting to cut your retirement plan contributions to help make ends meet, try to avoid the temptation. Retirement needs to be a high priority throughout your life.

If you plan to take time out of the workforce to raise children, consider temporarily increasing your plan contributions before leaving and after you return to help make up for the lost time and savings.

Also, while you're still decades away from retirement, you may have time to ride out market swings, so you may still be able to invest relatively aggressively in your plan. Be sure to fully reassess your risk tolerance before making any decisions.[2]

Reaching your peak earning years

This stage of your career brings both challenges and opportunities. College bills may be invading your mailbox. You may have to take time off unexpectedly to care for yourself or a family member. And those pesky home repairs never seem to go away.

On the other hand, with 20+ years of experience behind you, you could be earning the highest salary of your career. Now may be an ideal time to step up your retirement savings. If you're age 50 or older, you can contribute up to $24,000 to your plan in 2015, versus a maximum of $18,000 if you're under age 50. (Some plans impose lower limits.)

Preparing to retire

It's time to begin thinking about when and how to tap your plan assets. You might also want to adjust your allocation, striving to protect more of what you've accumulated while still aiming for a bit of growth.[3]

A financial professional can become a very important ally at this life stage. Your discussions may address health care and insurance, taxes, living expenses, income-producing investment vehicles, other sources of income, and estate planning.[4]

You'll also want to familiarize yourself with required minimum distributions (RMDs). The IRS requires you to begin taking RMDs from your plan by April 1 of the year following the year you reach age 70½, unless you continue working for your employer.[5]

Other considerations

Throughout your career, you may face other decisions involving your plan. Would Roth or traditional pretax contributions be better for you? Should you consider a loan or hardship withdrawal from your plan, if permitted, in an emergency? When should you alter your asset allocation? Along the way, a financial professional can provide an important third-party view, helping to temper the emotions that may cloud your decisions.

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What is this new chip-card technology I've been hearing about in the news?

In recent years, data breaches at major retailers have increased across the United States. As a way to counteract these data breaches, many U.S. credit-card companies have started implementing a more secure chip-card technology called EMV (which is short for Europay, Mastercard, and Visa).

Currently, most retailers use the magnetic strips on the back of your debit or credit card to access your account information. Unfortunately, the information contained in the magnetic strips is easily accessed by hackers. In addition, the magnetic strips use the same account information for every transaction. So once your card information is stolen, it can be used over and over again.

With the new EMV technology, debit cards and credit cards are embedded with a computer chip that generates a unique authentication code for each transaction. So if your card information is ever hacked, it can't be used again--it's a "one-and-done" scenario.

While many developed nations moved to EMV technology years ago, U.S. retailers have previously been unwilling to shoulder the costs. Fortunately, there is good news for U.S. consumers on the horizon.

Beginning in 2015, many large retailers will switch to the new EMV technology by installing payment terminals designed to read the new chip-embedded payment cards. It may take additional time, however, for smaller retailers to adopt this latest technology.

Along with EMV, even more advanced encryption technology is being developed that will increase security for online transactions and payments made with smartphones. In fact, new mobile payment options like Apple Pay and Google Wallet could eventually make paying with plastic entirely obsolete.

In the meantime, in the wake of these data breaches, you should make it a priority to periodically review your credit-card and bank account activity for suspicious charges. If you typically wait for your monthly statements to arrive in the mail, consider signing up for online access to your accounts--that way you can monitor your accounts as often as needed.