POLARIS ADVISORS, LLC.

THE Retirement Report

Retirement Transition Planning

508.481.2299 www.polarisadv.com First Quarter 2017

# Time Your Social Security Benefits For Top Results

What's the payoff for working most of your life and paying Social Security tax into the system? When your time to retire finally comes, you'll be eligible to receive Social Security benefits based on your work history and when you choose to begin receiving benefits. If you're married, you may have additional options for Social Security, even if one spouse has worked little or not at all.

A particular couple's optimal strategy depends on your age, the age of your spouse, and your health status, among other factors.


Your basic options for receiving benefits are to start early, begin benefits at your full retirement age (FRA), or to delay benefits until later.

- You can begin receiving Social Security retirement benefits as early as age 62, but if you do, you'll lock in smaller benefits than you would have gotten if you'd waited longer. If you retire at age 62, your benefit will be about 25% lower than if you waited until FRA.
- If you wait until FRA (also called "normal retirement age") to apply for benefits, there's no reduction. Your FRA depends on the year in which you were born. For most post-World War II Baby Boomers, the age is 66. However, FRA increases gradually and tops out at age 67 for those born after 1960.
- Finally, if you postpone your benefits until after FRA, you'll receive an increased monthly payment. For each year you wait, you'll get about 8% more, until you reach age 70. (Waiting past 70 doesn't increase your benefit amount.)

These basic rules apply to individuals. If you're married, you can claim benefits based on your own work record or you can get 50% of the benefit your spouse is entitled to, if that's higher.

Because Social Security benefits are guaranteed for life, starting early with a smaller benefit still could deliver significant income over your remaining years. Yet you may collect more overall if you start later or if you live for a long time. According to the Social Security Administration (SSA) the average life expectancy of someone at age 65 is now 84.3 years for a male and 86.6 years for a female.

What should a married couple do? Every situation is somewhat different, but consider these three common scenarios:

**Scenario 1.** Adam and Eve are close in age and income. Because they're both in good health and enjoy their jobs, they plan on working past FRA. They also have enough savings,

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## *Be Tax Smart! Save On One Of Your Biggest Expenses*

April is the month we all submit the year's accounting for our income taxes. For some, it's a happy refund, but for others, it's dreaded misery; which one depends on how smart we are in managing our finances. Here are some very bad tax moves:

**"Borrowing" from our IRAs.** The IRS gives us 60 days to transfer our IRA money from one bank to another, but some try to use this as a free 60-day loan. If we miss the redeposit deadline, the "loan" becomes a withdrawal, subject to full tax plus penalty. That can be as high as 43% for many. Paying 43% for three months is like paying a loan rate of 172% a year! Even credit cards are a good deal compared to that!

**Quick trading our account for fast profits.** With long-term capital gains rates at 20% FED and 5% MA, we keep 75% of our long-term gains. Quick trade that and the rates go to 28% and 12% for many. We only keep 60%. Better yet, only buy what we can keep for years, paying zero capital gains taxes along the way.

**Not paying our quarterly estimates.** This is sure to make April 15 miserable. Not only do we have a huge tax bill topped with interest and penalties, we owe next year's first quarterly estimate at the same time. Massive underpayment of taxes through the year often can result in a premature IRA withdrawal. See above!

Hoping your tax season went well,

Ric and Trang

# Timely Tax Angles To Dividends

Not all payouts to shareholders are "qualified dividends," but those that are get favorable treatment in which they're normally taxed at less than your rate for ordinary income.

But the tax rules for qualified dividends may go out the window if proposed tax reforms are enacted. The big question is whether you would fare worse under the new rules—or better.

Under current law, most dividends issued by domestic companies are qualified when paid out to shareholders and the owners of mutual funds. In some cases, qualified dividends also may come from foreign corporations, if their shares include publicly traded American Depositary Receipts (ADRs) or shares that are otherwise readily available on an established U.S. securities market.

The maximum tax rate on qualified dividends is only 15% for most investors. If you're in the top ordinary income tax bracket of 39.6%, the tax rate is 20%. Even better, though, investors in the two lowest ordinary income brackets of 10% and 15% benefit from a maximum 0% rate on qualified dividends.

To qualify for these reduced tax rates, shareholders of common stock and mutual funds must own the shares for more than 60 days, including the ex-dividend date (the annual date on which dividends are paid out). The holding period is 90 days for preferred stock. This can affect the timing of transactions if the ex-dividend date is approaching.

Other dividends, including most dividends issued by foreign corporations, are taxed at ordinary income rates. Therefore, if you received $1,000 in foreign dividends in 2016 and you're in the top tax bracket of 39.6%, you must pay $396 in tax on the dividends on your 2016 tax return. But even then, you may be eligible for a foreign credit or deduction that can offset tax paid on foreign dividends dollar for dollar.

So how does potential tax reform figure in the mix? Under campaign proposals from President Trump, the favorable tax rates for qualified dividends would be repealed, but investors would benefit from overall tax cuts. The seven-bracket structure would be scaled back to just three tax brackets with a top tax rate of 33%. It's not yet clear what changes will be enacted, however, or how particular taxpayers might fare.

The best approach is to continue to monitor developments. We will pass along vital information. ●

# 5 Retirement Mistakes You Can Fix

To err is human, but some mistakes are worse than others, and slip-ups that occur while you're planning for retirement can come back to haunt you financially.

But it may not be too late for you to fix some common mistakes. Here are five prime examples:

**1. Saving too little.** It seems obvious, but not setting aside enough money could become a big problem if you underestimate the amount you'll need to live on—all the more likely as life expectancies continue to rise. So if your employer offers a 401(k) plan with matching contributions, try to take full advantage of it, even though your take-home pay will be reduced by deferrals. And you can supplement these savings with IRA contributions.

**2. Starting too late.** From the start of your career there are many financial priorities competing for a share of your salary. You may be saving to buy a home or to put your kids through school. Yet while early contributions to a retirement plan can produce outsized benefits, you may be able to make up for lost time if you put as much as the law allows into your retirement savings. For 2017, the maximum 401(k) deferral is $18,000 or $24,000 if you're age 50 or over. The IRA limit is $5,500 or $6,500 if age 50 or over. You also might decide to work a few years longer than you'd originally planned. That can boost your savings while reducing the length of your retirement.

**3. Ignoring taxes.** Taxes are an essential part of the retirement planning equation. When you take money out of your retirement plans you'll likely owe federal and state income tax on those distributions. Part of your Social Security benefits also is subject to taxation. And your tax rate during retirement might be higher than you expect if you don't get some of the deductions you were able to claim while you were working. Factoring in taxes when you plan for retirement will help

# IRS Reveals "Dirty Dozen" Tax Scams To Avoid

The IRS has released its annual list of the "Dirty Dozen" tax scams to watch out for in 2017. Here's a recap of the IRS' summary of the top 12:

**1. Phishing:** A scammer may pose as a representative of an organization you know and trust, perhaps sending mass emails under another person's name or purporting to be a bank, credit card company, tax software provider, or government agency. The goal is to get you to provide personal information.

**2. Phone Scams:** Crooks may make aggressive phone calls when impersonating an IRS agent. The person might threaten you with police arrest, deportation, license revocation, or some other action—which legitimate agency employees wouldn't do.

**3. Identity Theft:** Watch out for identity theft, especially during tax-filing season, when someone might steal your Social Security number and use it to file a tax return, claiming a fraudulent refund.

**4. Return Preparer Fraud:** The vast majority of tax professionals provide honest, high-quality service. But some dishonest preparers perpetrate refund fraud, identity theft, and other scams.

**5. Fake Charities:** Look out for groups masquerading as charitable organizations to attract donations from unsuspecting contributors. Be wary of charities with names similar to familiar or nationally known organizations. Take a few extra minutes to ensure your hard-earned money goes to legitimate and currently eligible charities. Visit IRS.gov to check out their status.

**6. Inflated Refund Claims:** Promoters may offer exorbitant refunds. Be wary of anyone who asks taxpayers to sign a blank return, promises a big refund before looking at their records, or charges fees based on a percentage of the refund. Fraudsters rely on flyers, advertisements, phony storefronts—even word of mouth via community groups—to find victims.

**7. Excessive Claims for Business Credits:** The fuel tax credit—which isn't available to most taxpayers and usually is limited to off-highway business use, including farming—often is claimed improperly. Taxpayers also should avoid misuse of the research credit. Claims for that credit may be disqualified for failure to participate in or to substantiate qualified research activities or to satisfy tax law requirements.


**8. Falsely Padding Deductions on Returns:** Avoid the temptation to falsely inflate deductions or expenses on returns to pay less than what you owe or to get a bigger refund. Think twice before overstating deductions such as charitable contributions and business expenses or improperly claiming credits such as the Earned Income Tax Credit (EITC) or Child Tax Credit (CTC).

**9. Falsifying Income to Claim Credits:** Avoid the temptation to inflate deductions or expenses on your return to underpay taxes and possibly receive a larger refund. Overstating deductions for charitable contributions and business expenses or claiming invalid personal credits could lead to large bills for back taxes, interest, or even criminal prosecution.

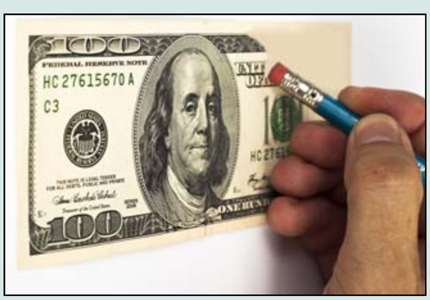
**10. Abusive Tax Shelters:** Abusive tax schemes have evolved from illegal domestic and foreign trust arrangements into even more sophisticated strategies. These scams often take advantage of the financial secrecy laws of some foreign jurisdictions and the availability of credit or debit cards issued from offshore financial institutions.

**11. Frivolous Tax Arguments:** The IRS also describes common frivolous tax arguments made by those who refuse to comply with federal tax laws. Frequently, taxpayers refuse to pay taxes on religious or moral grounds by invoking their First Amendment rights. Those efforts inevitably fail, and the penalty for filing a frivolous tax return is $5,000.

**12. Offshore Tax Avoidance:** A recent string of successful enforcement actions against offshore tax cheats and the financial organizations that help them shows why it's a bad bet to hide money and income offshore. Taxpayers are served best by coming in voluntarily and taking advantage of the IRS Offshore Voluntary Disclosure Program to catch up on their tax responsibilities. ●

you create a more realistic scenario.

**4. Not diversifying your investments.** While you've undoubtedly heard about the benefits of spreading your investment dollars across many kinds of holdings, it's often tempting to stick with investments that have been doing well for you. But there's no guarantee that gains on a particular stock or fund will continue, and creating a diversified portfolio can help reduce the risk that you'll be hurt by losses in one or two investments. Just keep in mind that diversification doesn't provide guaranteed protection, especially in declining markets.



**5. Ending retirement planning when you retire.** Even after you retire you'll have important decisions to make. You'll need to make sure your portfolio stays diversified, and you'll likely need to allocate some money to stocks or other investments that may help you keep pace with rising costs.

Maybe the biggest overall mistake you can make is assuming you know it all. Reach out for expert assistance to avoid the common traps. ●

# What Would Estate Tax Repeal Mean?

If President Trump and the Republican-led Congress get their way, the federal estate tax will be repealed. This could be good news for wealthy families that were facing a hefty estate tax bill in the near future. However, if certain changes accompanying the estate tax repeal also are enacted, other families may encounter an unpleasant income tax surprise.

Normally, an unlimited marital deduction shields transfers between spouses from federal estate and gift taxes, while a separate, finite exemption shelters gifts and bequests to other beneficiaries, including your children. The current exempt amount, which is indexed for inflation, is $5.49 million in 2017. The top tax rate on additional amounts is 40%.

In addition, heirs can benefit from a "step-up" in basis when they inherit investment assets—they're valued on the date of death rather than what was paid for them. So if someone acquired securities for $1 million and it was worth $5 million when that person died, the beneficiary's adjusted basis for income tax purposes is $5 million. The $4 million of appreciation that occurred before the death remains untaxed forever.

Assuming the estate tax is repealed effective for 2017, there would be no more federal estate tax worries for families inheriting an estate worth more than $5.49 million. However, under the latest proposals, Congress also would eliminate the step-up in basis (with an $10 million exception for farms and small business interests), and that could result in income tax problems for many families.

Returning to the example of giving $5 million of assets with a basis of $1 million to non-spouse beneficiaries, no estate tax would be due under the current law, thanks to the $5.49 million exemption. But under the proposed reforms (and barring any exemptions), if beneficiaries carry over the basis on those shares and sell the assets for $5 million, they will have a taxable gain of $4 million, subject to the prevailing tax rates for capital gains.

Of course, this is just a hypothetical example and other rules (e.g., a $1 million exemption) could apply, but the potential for major income tax liability is real. Also, state estate taxes may still be a factor. Once it becomes clear whether estate tax reform will be enacted, and what shape it will take, meet with your financial and tax advisors to map out a strategy. ●

## Time Your SS Benefits

*(Continued from page 1)*

plus their work income, to sustain them easily until age 70. Currently, Adam has a life expectancy of age 88, while Eve's is age 90. If they elect early benefits at age 62, they would be entitled to an estimated lifetime benefit of almost $1.25 million. But if they wait until age 70 to apply for benefits and then live as long as expected, they could receive close to $125,000 more.

**Scenario 2.** In our next example, Romeo and Juliet have shorter life expectancies due to health issues. Currently, Romeo has a life expectancy of age 78 and Juliet has a life expectancy of age 76. If they claim benefits at FRA, it's estimated that the couple will receive almost $100,000 more than if they delayed benefits until age 70, based on their life expectancies.

**Scenario 3.** Jack and Jill are both in their early sixties. Jill is in better health than Jack. If they start benefits at age 62, let's say Jack would get $1,500 a month and Jill $750 per month. Those amounts would rise to $2,000 monthly for Jack and $1,000 for Jill if they claim benefits at FRA. However, by delaying benefits until age 70, Jack will receive about $2,650 a month. What's more, if Jill outlives Jack as expected, she is entitled to benefits based on 50% of Jack's higher monthly amount. Depending on how long Jill lives, her total benefits easily could increase by $50,000 or even more.

One of these scenarios might be similar to your situation, but you'll need to factor in your own variables—including how long you want to or need to work, as well as other financial and personal considerations and your health status—as you consider the best times for you and your spouse to begin receiving Social Security benefits. ●

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