February 2015

Newsletter

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Clients and Friends:

The IRS has issued a consumer alert due to the increased number of fraudulent calls that have been reported. The IRS has provided the following list of tell-tale signs of a fraudulent call, stating that the **IRS will never** :

1. Call about taxes you owe, without first mailing you an official notice.
2. Demand that you pay taxes, without allowing you to question or appeal the amount they say you owe.
3. Require you to use a specific payment method, and/or ask for a credit or debit card number over the phone.
4. Threaten to send local police to have you arrested for not paying.
5. Use unsolicited e-mail, text messages or any social media to discuss your personal tax issue.

If you ever get a call from someone claiming to be from the IRS, please do **not** provide any information and contact me immediately.

I hope you find this information, along with the articles contained in the newsletter, to be helpful. As always, if you have any questions, please contact me.

Eric

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Quiz: How Much Do You Know about Social Security?

You're probably covered under Social Security--according to the Social Security Administration, an estimated 165 million workers are*--but how much do you know about this program? Test your knowledge by answering the following questions.

Questions

1. If you decide to collect your retirement benefit starting at age 62, your benefit will be how much less than if you wait until your full retirement age?

a. 5% to 10% less

b. 15% to 20% less

c. 25% to 30% less

d. 35% to 40% less

2. Your spouse and children may be eligible for benefits if something happens to you.

a. True

b. False

3. The Social Security taxes that are collected from your paycheck are called:

a. FUTA taxes

b. FETA taxes

c. FICA taxes

4. Once you reach full retirement age, you can work and earn as much as you want without reducing your Social Security benefit.

a. True

b. False

5. Once you begin receiving your retirement benefit, it will never increase.

a. True

b. False

Answers

1. c. If you were born in 1943 or later, you'll see a 25% to 30% reduction in your retirement benefit if you claim Social Security benefits at age 62, rather than waiting until your full retirement age (which is 66 to 67, depending on your year of birth). This reduction is permanent.

2. a. Social Security isn't just for retirees. Your spouse and dependent children may be able to receive survivors or disability benefits based on your earnings record if certain eligibility requirements are met.

3. c. Social Security payroll taxes are called FICA taxes because they are collected under the authority of the Federal Insurance Contributions Act. FICA includes two separate taxes: Social Security and Medicare. The Social Security portion is withheld from your pay at a rate of 6.2% (matched by your employer), but only on earnings up to the maximum earnings limit for the year ($117,000 in 2014).

4. a. Before you reach full retirement age, your benefit will be reduced if your earnings exceed certain limits, but these earnings limits no longer apply once you reach full retirement age.

5. b. There are several reasons why your benefit might increase after you begin receiving it. First, you'll generally receive annual cost-of-living adjustments (COLA). Second, the Social Security Administration recalculates your benefit every year to account for new earnings, so your benefit might increase as a result. Your benefit might also be adjusted if you qualify for a higher benefit based on your spouse's earnings once he or she files for Social Security.

For more information, visit the Social Security Administration's website, www.ssa.gov.

*Social Security Basic Facts, 2014

No Matter What Your Age, Your Social Security Statement Matters

Don't assume that Social Security is just for retirees; it's much more than a retirement program. According to the SSA, approximately 21% of individuals currently receiving benefits are younger than retirement age who are receiving disability or survivor benefits. Get in the habit of checking your Social Security Statement every year to find out what role Social Security might play in your financial future.*

**Source: Fast Facts & Figures About Social Security, 2014*

Fifteen years ago, the Social Security Administration (SSA) launched the Social Security Statement, a tool to help Americans understand the features and benefits that Social Security offers. Since then, millions of Americans have reviewed their personalized statements to see a detailed record of their earnings, as well as estimates of retirement, survivor, and disability benefits based on those earnings. Here's how to get a copy of your statement, and why it deserves more than just a quick glance, even if you're years away from retirement.

How do you get your statement?

In September 2014, the SSA began mailing Social Security Statements to most workers every five years. Workers attaining ages 25, 30, 35, 40, 45, 50, 55, and 60 who are not receiving Social Security benefits and are not registered for an online account will receive a statement in the mail about three months before their next birthday. Workers older than age 60 will receive a statement every year.

But why wait? A more convenient way to view your Social Security Statement is online. First, visit socialsecurity.gov to sign up for a personal *my* Social Security account (you must be 18 or older to sign up online). Once you have an account, you can view your Social Security Statement anytime you want, as often as you want.

Check your estimated benefits

Your Social Security Statement gives you information about retirement, disability, and survivor benefits. It tells you whether you've earned enough credits to qualify for these benefits and, if you qualify, how much you can expect to receive. As each Social Security Statement notes, the amounts listed are only estimates based on your average earnings in the past and a projection of future earnings. Actual benefits you receive may be different if your earnings increase or decrease in the future. Amounts may also be affected by cost-of-living increases (estimates are in today's dollars) and other income you receive. Estimated benefits are also based on current law, which could change in the future.

Retirement benefits

Although Social Security was never intended to be the sole source of retirement income, retirement benefits are still very important to many retirees. Your statement shows estimates of how much you can expect to receive if you begin receiving benefits at three different ages: your full retirement age (66 to 67, depending on your birth year), age 62 (your benefit will be lower), or age 70 (your benefit will be higher). When to start claiming Social Security is a big decision that will affect your overall retirement income, so if you're approaching retirement, this information can be especially useful. But even if you're years away from retirement, it's important to know how much you might receive, so that you can take this information into account as you set retirement savings goals.

Disability benefits

Disability is unpredictable and can happen suddenly to anyone at any age. Disability benefits from Social Security can be an important source of financial support in the event that you're unable to work and earn a living. Check your Social Security Statement to find out what you might receive each month if you become disabled.

Survivor benefits

Survivor protection is a valuable Social Security benefit you may not even realize you have. Upon your death, your survivors such as your spouse, ex-spouse, and children may be eligible to receive benefits based on your earnings record. Review your Social Security Statement to find out whether your survivors can count on this valuable source of income.

Review your earnings record

In addition to benefit information, your Social Security Statement contains a year-by-year record of your earnings. This record is updated whenever your employer reports your earnings (or if you're self-employed, when you report your own earnings). Earnings are generally reported annually, so keep in mind that your earnings from last year may not yet be on your statement.

It's a good idea to make sure that your earnings have been reported correctly, because mistakes do happen. You can do this by comparing your earnings record against past tax returns or W-2s you've received. This is an important step to take because your Social Security benefits are based on your average lifetime earnings. If your earnings have been reported incorrectly, you may not receive the benefits to which you're entitled.

What if you find errors? The SSA advises you to call right away if any earnings are reported incorrectly. The SSA phone number is 1-800-772-1213 (TTY 1-800-325-0778).

The Potential Pitfalls of DIY Estate Planning

The one-size-fits-all, fill-in-the-blank forms that do-it-yourself estate planning sources provide may be attractive to some individuals because they cost a fraction of what attorneys typically charge. But is saving a few dollars worth the risk of doing things incorrectly?

Americans, by and large, are do-it-yourselfers. Books, websites, software programs, and even giant box stores exist solely to help ambitious Americans tackle all kinds of everyday challenges, from fixing leaky faucets to building backyard sheds. The same holds true for estate planning--there's certainly no dearth of information for those wanting to prepare their own wills and other important documents. However, do-it-yourselfers may want to exercise a bit of caution here.

Although do-it-yourself (DIY) estate planning can cost a fraction of what attorneys charge, depending on your personal situation, this may be a case of being penny-wise and pound-foolish.

Cheap, easy, and better than nothing

Proponents of DIY estate planning typically have two arguments:

1. **It's cheap and easy:** Creating a will and other estate planning documents on your own can cost far less than doing so with an attorney's assistance. You can find resources online and in the library that could help.
2. **It's better than nothing:** What happens if you die or become very ill without important estate planning documents? In that case, the state will make important decisions for you, such as how your property will be distributed, who will care for your minor children, and what medical care you'll receive if you are unable to make your wishes known.

These points are valid: For those who cannot afford to pay an attorney, DIY may be an economical alternative. For others, a poorly drafted will may be better than no will at all, especially when naming a guardian for minor children is involved. But there are several risks to DIY estate planning, including the risk that your wishes will not be carried out exactly as you intend.

Basic is not always ideal

Although DIY sources can typically handle the needs of simple estates, they generally are not appropriate for even the most common complexities such as children from a prior marriage, children with special needs, property that has appreciated in value resulting in capital gains, and estates that are large enough to be subject to estate taxes (typically those worth more than $5,340,000 in 2014). Also, DIY sources generally fail to take advantage of sophisticated estate planning strategies because they usually can't account for an individual's unique circumstances.

Further, you may make an error by failing to understand the instructions or by following the instructions incorrectly.

The result is that the documents you create could be invalid, ineffective, or contain legal language having consequences you never intended. You might not know if that is the case during your lifetime, but at your death your loved ones will find out and may suffer the lasting consequences of your mistakes.

You may benefit from legal advice

DIY sources provide forms but not legal advice. In fact, these sources clearly state that they are not a substitute for an attorney, and that they are prohibited from providing any kind of legal advice.

Estate planning involves a lot more than producing documents. It's impossible to know, without a legal education and years of experience, what the appropriate legal solution is to your particular situation and what planning opportunities are available. The actual documents produced are simply tools to put into effect a plan that is specifically tailored to your circumstances and goals.

Estate planning laws change

Laws are not static. They constantly change because of new case law and legislation, especially when it comes to estate taxes. Attorneys keep up with these changes. DIY websites, makers of software, and other sources may not do as good a job at keeping current and up-to-date.

Fixing mistakes can be costly and time-consuming

As previously stated, working with an attorney to create your estate planning documents can be very expensive, costing anywhere from several hundred to several thousands of dollars, depending on the complexity of your estate. But these costs are minor compared to the costs and frustrations that your loved ones may experience if there are serious errors in your DIY estate plan. Many more thousands of dollars and many hours with attorneys may have to be spent to undo what was done wrong. Before embarking on a DIY estate plan, consider these risks very carefully.

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IMPORTANT DISCLOSURES

Should I be worried about a Federal Reserve interest rate hike?

After years of record-low interest rates, at some point this year the Federal Reserve is expected to begin raising its target federal funds interest rate (the rate at which banks lend to one another funds they've deposited at the Fed). Because bond prices typically fall when interest rates rise, any rate hike is likely to affect the value of bond investments.

However, higher rates aren't all bad news. For those who have been diligent about saving and/or have kept a substantial portion of their portfolios in cash alternatives, higher rates could be a boon. For example, higher rates could mean that savings accounts and CDs are likely to do better at providing income than they have in recent years.

Also, bonds don't respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types of debt can mean that some bonds may be under- or overvalued compared to others. Depending on your risk tolerance and time horizon, there are many ways to adjust a bond portfolio to help cope with rising interest rates. However, don't forget that a bond's total return is a combination of its yield and any changes in its price; bonds seeking to achieve higher yields typically involve a higher degree of risk.

Finally, some troubled economies overseas have been forced to lower interest rates on their sovereign bonds in an attempt to provide economic stimulus. Lower rates abroad have the potential to make U.S. debt, particularly Treasury securities (whose timely payment of interest and principal is backed by the full faith and credit of the U.S. Treasury), even more attractive to foreign investors. Though past performance is no guarantee of future results, that's what happened during much of 2014. Increased demand abroad might help provide some support for bonds denominated in U.S. dollars.

Remember that bonds are subject not only to interest rate risk but also to inflation risk, market risk, and credit risk; a bond sold prior to maturity may be worth more or less than its original value. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.

How can I try to manage the impact of an interest rate hike?

With higher interest rates a distinct possibility in 2015, you may want to think about whether the bond portion of your portfolio is positioned appropriately given your time horizon and risk tolerance. One factor you might consider is which types of bonds may be most vulnerable to a rate hike.

Some investors forget that a bond's principal value may fluctuate with market conditions. When interest rates rise, longer-term bonds may feel a greater impact than those with shorter maturities. When interest rates are rising, bond buyers may be reluctant to tie up their money for longer periods if they anticipate higher yields in the future. The longer a bond's term, the greater the risk that its yield may eventually be superseded by that of newer bonds.

High-yield bonds (also known as junk bonds) may be affected disproportionately because they involve greater risk. Issuers must pay those higher yields because they are seen as having a greater risk of default, especially if a company already has a high debt burden and/or a relatively short history of successful debt repayment, or is otherwise on shaky financial footing. Investors may be reluctant to purchase risky debt if they foresee receiving a comparable yield from an issuer seen as more trustworthy.

Bonds redeemed prior to maturity may be worth more or less than their original value; however, if you hold a bond to maturity, you would suffer no loss of principal unless the issuer defaults. Bond investments also may be laddered. This involves buying a portfolio of bonds with varying maturities; for example, a five-bond portfolio might be structured so that one of the five matures each year for the next five years. As each bond matures, you might be able to reinvest the proceeds in an instrument that carries a higher yield.

Don't forget that all investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful. In addition to interest rate risk, bonds also face credit risk, inflation risk, and market risk.