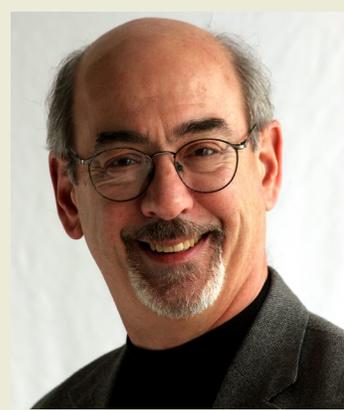


THE PERSONAL PLANNER

Personal Financial Planning Tips for Today and the Rest of Your Life



Heling Associates Inc.
Bruce R. Heling, CFP(R) CPA
PO Box 1385
Brookfield, WI 53008-1385
262-821-1008
bheling@helingassociates.com
http://HelingAssociates.com

I'm writing this way too early (9/18) to have any idea how September will end up in terms of market performance. But I'm disappointed the Fed didn't raise rates in their meeting yesterday. Why? Because lowering rates is the only meaningful tool they have to fight recessions and they can't lower rates from where we are today. And we will have a recession again someday, and sometimes they come on relatively quickly. Let's hope that the Fed builds in some cushion to the rate structure before we see our next recession. That aside, markets continued to show extreme volatility in September but thankfully, during the first two-thirds of the month, the volatility was a net positive. These are anxious times for investors. Keep the faith!

Bruce Heling CFP CPA
September 18, 2015

October 2015

Three Smart Moves for Young Adults
2015 Year-End Tax Planning Basics
Taxes, Retirement, and Timing Social Security

I've recently changed my legal name. Do I need to change my name on my Social Security card?

 **HELING ASSOCIATES**
Bringing the Personal to Financial Planning

Three Smart Moves for Young Adults



Your 20s is a time for exploration and new experiences, but also a time of emerging personal financial responsibility. And though times are certainly different now for young adults compared to 10 or 20

years ago (for example, more college students graduate with significant student loans and many return home to live with their parents), some advice never goes out of style.

1. Live within your means

It may sound boring when the world is finally at your fingertips, but living within your means, even *below* your means, is one of the best things you can do to create a solid financial foundation. Your "means" is the income you have coming in. Living within your means involves not spending more than you have. This can be difficult for young adults when temptation often lurks around every corner--technology gadgets, gym memberships, free shipping and instant streaming services, daily coffee and smoothie runs, new clothes, outings with friends, traveling...you get the idea.

The key is to distinguish between your needs and wants. You *need* food, but you *want* to try that new restaurant downtown, and the other one across town, and the one that just opened right near your apartment. If your wants are leaving you broke, you need to curtail them.

Everyone's income and expenses are different. At one end of the spectrum is someone living on her own paying 100% of rent and utilities, while at the other end is someone living at home with his parents and not paying any of those expenses. Analyze what you have coming in (income) each month and what you have going out (expenses), and keep track of where your money goes.

2. Save, save, save

Living within your means doesn't entail breaking even each month. It means making room for savings, too. If you have a job, sign up for direct deposit so your paycheck will be automatically funneled into your checking account. Then

re-route some of that money on payday to a linked savings account. You'll start to build a savings fund, but you'll still have access to the money if you need it. Any savings method you can put on autopilot is ideal because it's one less thing you'll need to remember to do and one less dollar you'll miss or otherwise be tempted to spend.

Once you make it a habit to save regularly, you'll want to think ahead. Sure, retirement is a long way off. But when you start saving at a young age, you can benefit tremendously from compounding, which is when your dollars earn returns that are then reinvested back into your account, potentially earning returns themselves. Over time, the process can snowball.

For example, a 22-year-old who saves \$200 per month and earns a 4% annual return will have \$274,115 at age 65. By comparison, a 32-year-old who saves and earns the same amount will have \$164,113 at age 65, and a 42-year-old will have \$90,327. (Note that this is a hypothetical example of mathematical compounding and does not represent the performance of any specific investment; all investing involves risk, including the possibility of loss.)

3. Borrow wisely

Looking to buy a car or a condo, or attend graduate school? These things typically involve debt, and debt is not your friend. Before you sign on the dotted line for a major purchase, ask yourself whether you're overextending yourself, whether you're getting the best possible deal, and whether borrowing is the only way to achieve your goals.

If you have student loans, make sure you've explored all your repayment options. Federal (but not private) student loans are eligible for the government's Income-Based Repayment (IBR) plan, in which monthly payments are capped at 10% of your discretionary income (15% for loans made prior to July 1, 2014). If you don't qualify for IBR, you might benefit from another income-sensitive repayment option or loan consolidation.

2015 Year-End Tax Planning Basics



AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home; and the exercise of incentive stock options.

Required minimum distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that should have been distributed.

As the end of the 2015 tax year approaches, set aside some time to evaluate your situation and consider potential opportunities. Effective year-end planning depends on a good understanding of both your current circumstances and how those circumstances might change next year.

Basic strategies

Consider whether there's an opportunity to defer income to 2016. For example, you might be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. When you defer income to 2016, you postpone payment of the tax on that income. And if there's a chance that you might be paying taxes at a lower rate next year (for example, if you know that you'll have less taxable income next year), deferring income might mean paying *less* tax on the deferred income.

You should also look for potential ways to accelerate 2016 deductions into the 2015 tax year. If you typically itemize deductions on Schedule A of Form 1040, you might be able to accelerate some deductible expenses--such as medical expenses, qualifying interest, or state and local taxes--by making payments before the end of the current year, instead of paying them in early 2016. Or you might consider making next year's charitable contribution this year instead. If you think you'll be itemizing deductions in one year but claiming the standard deduction in the other, trying to defer (or accelerate) Schedule A deductions into the year for which you'll be itemizing deductions might let you take advantage of deductions that would otherwise be lost.

Depending on your circumstances, you might also consider taking the opposite approach. For example, if you think that you'll be paying taxes at a higher rate next year (maybe as the result of a recent compensation increase or the planned sale of assets), you might want to look for ways to accelerate income into 2015 and possibly defer deductions until 2016 (when they could potentially be more valuable).

Complicating factors

First, you need to factor in the alternative minimum tax (AMT). The AMT is essentially a separate, parallel federal income tax system with its own rates and rules. If you're subject to the AMT, traditional year-end strategies may be ineffective or actually have negative consequences--that's because the AMT effectively disallows a number of itemized deductions. So if you're subject to the AMT in 2015, prepaying 2016 state and local taxes

probably won't help your 2015 tax situation, and, in fact, could hurt your 2016 bottom line.

It's also important to recognize that personal and dependency exemptions may be phased out and itemized deductions may be limited once your adjusted gross income (AGI) reaches a certain level. This is especially important to factor in if your AGI is approaching the threshold limit and you're evaluating whether to accelerate or defer income or itemized deductions. For 2015, the AGI threshold is \$258,250 if you file as single, \$309,900 if married filing jointly, \$154,950 if married filing separately, and \$284,050 if head of household.

IRA and retirement plan contributions

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2015 taxable income. (Note: A number of factors determine whether you're eligible to deduct contributions to a traditional IRA.) Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars--so there's no immediate tax savings--but qualified distributions are completely free of federal income tax.

For 2015, you're generally able to contribute up to \$18,000 to a 401(k) plan (\$24,000 if you're age 50 or older) and up to \$5,500 to a traditional or Roth IRA (\$6,500 if you're age 50 or older). The window to make 2015 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2015 IRA contributions.

Important notes

The Supreme Court has legalized same-sex marriage nationwide, significantly simplifying the federal and state income tax filing requirements for same-sex married couples living in states that did not previously recognize their marriage.

A host of popular tax provisions (commonly referred to as "tax extenders") expired at the end of 2014. Although it is possible that some or all of these provisions will be retroactively extended, currently they are not available for the 2015 tax year. Among the provisions: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.

Taxes, Retirement, and Timing Social Security



**This hypothetical example is for illustrative purposes only, and its results are not representative of any specific investment or mix of investments. Actual rates of return and results will vary. The example assumes that earnings are taxed as ordinary income and does not reflect possible lower maximum tax rates on capital gains and dividends, as well as the tax treatment of investment losses, which would make the return more favorable. Investment fees and expenses have not been deducted. If they had been, the results would have been lower. You should consider your personal investment horizon and income tax brackets, both current and anticipated, when making an investment decision as these may further impact the results of the comparison. Investments offering the potential for higher rates of return also involve a higher degree of risk to principal.*

The advantages of tax deferral are often emphasized when it comes to saving for retirement. So it might seem like a good idea to hold off on taking taxable distributions from retirement plans for as long as possible. (Note: Required minimum distributions from non-Roth IRAs and qualified retirement plans must generally start at age 70½.) But sometimes it may make more sense to take taxable distributions from retirement plans in the early years of retirement while deferring the start of Social Security retirement benefits.

Some basics

Up to 50% of your Social Security benefits are taxable if your modified adjusted gross income (MAGI) plus one-half of your Social Security benefits falls within the following ranges: \$32,000 to \$44,000 for married filing jointly; and \$25,000 to \$34,000 for single, head of household, or married filing separately (if you've lived apart all year). Up to 85% of your Social Security benefits are taxable if your MAGI plus one-half of your Social Security benefits exceeds those ranges or if you are married filing separately and lived with your spouse at any time during the year. For this purpose, MAGI means adjusted gross income increased by certain items, such as tax-exempt interest, that are otherwise excluded or deducted from your income for regular income tax purposes.

Social Security retirement benefits are reduced if started prior to your full retirement age (FRA) and increased if started after your FRA (up to age 70). FRA ranges from 66 to 67, depending on your year of birth.

Distributions from non-Roth IRAs and qualified retirement plans are generally fully taxable unless nondeductible contributions have been made.

Accelerate income, defer Social Security

It can sometimes make sense to delay the start of Social Security benefits to a later age (up to age 70) and take taxable withdrawals from retirement accounts in the early years of retirement to make up for the delayed Social Security benefits.

If you delay the start of Social Security benefits, your monthly benefits will be higher. And because you've taken taxable distributions from your retirement plans in the early years of retirement, it's possible that your required minimum distributions will be smaller in the later years of retirement when you're also receiving more income from Social Security. And smaller

taxable withdrawals will result in a lower MAGI, which could mean the amount of Social Security benefits subject to federal income tax is reduced.

Whether this strategy works to your advantage depends on a number of factors, including your income level, the size of the taxable withdrawals from your retirement savings plans, and how many years you ultimately receive Social Security retirement benefits.

Example

Mary, a single individual, wants to retire at age 62. She can receive Social Security retirement benefits of \$18,000 per year starting at age 62 or \$31,680 per year starting at age 70 (before cost-of-living adjustments). She has traditional IRA assets of \$300,000 that will be fully taxable when distributed. She has other income that is taxable (disregarding Social Security benefits and the IRA) of \$27,000 per year. Assume she can earn a 6% annual rate of return on her investments (compounded monthly) and that Social Security benefits receive annual 2.4% cost-of-living increases. Assume tax is calculated using the 2015 tax rates and brackets, personal exemption, and standard deduction.

Option 1. One option is for Mary to start taking Social Security benefits of \$18,000 per year at age 62 and take monthly distributions from the IRA that total about \$21,852 annually.

Option 2. Alternatively, Mary could delay Social Security benefits to age 70, when her benefits would start at \$38,299 per year after cost-of-living increases. To make up for the Social Security benefits she's not receiving from ages 62 to 69, during each of those years she withdraws about \$40,769 to \$44,094 from the traditional IRA--an amount approximately equal to the lost Social Security benefits plus the amount that would have been withdrawn from the traditional IRA under the age 62 scenario (plus a little extra to make the after-tax incomes under the two scenarios closer for those years). When Social Security retirement benefits start at age 70, she reduces monthly distributions from the IRA to about \$4,348 annually.

Mary's after-tax income in each scenario is approximately the same during the first 8 years. Starting at age 70, however, Mary's after-tax income is higher in the second scenario, and the total cumulative benefit increases significantly with the total number of years Social Security benefits are received.*

Heling Associates Inc.
Bruce R. Heling, CFP(R) CPA
PO Box 1385
Brookfield, WI 53008-1385
262-821-1008
bheling@helingassociates.com
http://HelingAssociates.com

Heling Associates, Inc. is a fee-only financial and investment advisory firm that has been providing financial planning, financial counseling, and portfolio management services since 1991. The firm is registered as an investment advisor with the Department of Financial Institutions of the State of Wisconsin. If you've been thinking about seeking help from an objective and professional financial advisor, we welcome your inquiry.

While every effort has been made to ensure that information and data presented in this publication is accurate, we cannot, in fact, assure such accuracy is achieved. While publications may, on occasion, mention specific securities and investment vehicles, readers are advised that such mention does not constitute an investment recommendation. You should only invest after consulting us or another professional financial advisor who can assist you in determining your goals, risk capacity, and risk tolerance.



I've recently changed my legal name. Do I need to change my name on my Social Security card?

Whenever an individual legally changes his or her name, it is important to contact the Social Security Administration (SSA)

as soon as possible. Failure to notify the SSA of a name change could prevent your wages from being posted correctly to your Social Security earnings record and might even result in a delay when you file your taxes.

To obtain a new card with your new name, you need to provide the SSA with a recently issued document that proves your identity and legal name change. Acceptable documents include:

- Marriage certificate
- Divorce decree
- Certificate of Naturalization showing new name
- Court order for approving the name change

If the document you provide doesn't offer enough information for the SSA to identify you in their records, you must also provide an identity document in your old name (expired documents with your old name are allowed).

In addition, if you were born outside the United States or you aren't a U.S. citizen, you typically must provide documentation to prove U.S. citizenship or lawful noncitizen status.

Once you have gathered the appropriate documentation, you need to complete the SSA Application for a Social Security Card. However, Social Security card applications are not accepted on the SSA website. As a result, you need to take or mail your application, along with your supporting documents, to your local Social Security office.

For more information on applying for a new Social Security card or finding a Social Security office in your area, visit the Social Security Administration website at www.ssa.gov.



How can I protect my Social Security number from identity theft?

Your Social Security number is one of your most important personal identifiers. If identity thieves obtain your Social

Security number, they can access your bank account, file false tax returns, and wreak havoc on your credit report. Here are some steps you can take to help safeguard your number.

Never carry your card with you. You should never carry your Social Security card with you unless it's absolutely necessary. The same goes for other forms of identification that may display your Social Security number (e.g., Medicare card)

Do not give out your number over the phone or via email/Internet. Oftentimes, identity thieves will pose as legitimate government organizations or financial institutions and contact you to request personal information, including your Social Security number. Avoid giving out your Social Security number to anyone over the phone or via email/Internet unless you initiate the contact with an organization or institution that you trust.

Be careful about sharing your number. Just because someone asks for your Social Security

number doesn't mean you have to share it. Always ask why it is needed, how it will be used, and what the consequences will be if you refuse to provide it.

If you think someone has misused your Social Security number, contact the Social Security Administration (SSA) immediately to report the problem. The SSA can review your earnings record with you to make sure their records are correct. You can also visit the SSA website at www.ssa.gov to check your earnings record online.

Unfortunately, the SSA cannot directly resolve any identity theft problems created by the misuse of your Social Security number. If you discover that someone is illegally using your number, be sure to contact the appropriate law-enforcement authorities. In addition, consider filing a complaint with the Federal Trade Commission and submitting IRS Form 14039, Identity Theft Affidavit, with the Internal Revenue Service. Visit www.ftc.gov and www.irs.gov for more information.