The Financial and Estate Planning Council of Metropolitan Detroit, Inc.

August 2016

33006 W. Seven Mile Road, #237, Livonia, MI 48152 • (313) 530-9223 • FAX: (248) 479-0350

President's Message

Greetings.

This month I would like to offer a few comments about the benefits of membership in the FEPCMD.

Recently I was reviewing our Council's website after it had been reworked and improved. I wanted to explore the Member Benefits available to members of the Council. The Member Benefits can be found by clicking on the Membership tab at the top of the home page for the FEPCMD website at http://www.metrodetroitfepc.org/. A list of benefit categories then appears and you can click on any category for further information. The categories are:

- Exclusive Benefits for Members of Financial and Estate Planning Council of Metro Detroit, Inc.
- Other Benefits, Programs & Services
- Marketing and Website Design Services
- Software
- Programs and Services for Council Development
- Educational Opportunities
- Subscriptions and Publications
- Presentation Materials and Office Supplies
- Complimentary Resources
- Discipline-Specific Information

WELCOME TO OUR NEW MEMBERS

STEPHANIE ASHCRAFT
Northern Trust Company
Sponsors: Rebecca Herr and Jim Smallegan

MATT TRUJILLO, CFP
Center For Financial Planning
Sponsors: Tim Wynan and Dennis Mitzel

One of the complimentary resources available is the e-version of the NAEPC Journal of Estate & Tax Planning. The breadth of articles and resources available through the *Journal* is impressive and useful. Check back on a periodic basis for the Monthly Technical Newsletter found in the News Nook section of the *Journal*.

If you are interested in, or require, CE credit, take a look at the Educational Opportunities available through the Robert G. Alexander Webinar Series. Here is a list of the upcoming seminars:

Wednesday, August 10, 2016 3:00pm - 4:00pm ET
Tax and Estate Planning for Divorce
Carlyn McCaffrey, LL.B., LL.M., AEP® (Distinguished)

Wednesday, September 14, 2016 3:00pm - 4:00pm ET
Income Tax Deductions for Charitable Bequests of IRD
Christopher R. Hoyt, JD, AEP® (Distinguished)

Wednesday, October 19, 2016 3:00pm - 4:00pm ET
Tricky GST Issues
David A. Handler, JD, AEP® (Distinguished)

Wednesday, December 14, 2016 3:00pm - 4:00pm ET
Top Ten Estate Planning and Estate Tax Developments of 2016
Ronald D. Aucutt, JD, AEP® (Distinguished)

Take a few minutes to explore the benefits to determine what is available. Perhaps you will find a software program, a book or a subscription of interst to you on which you can realize a significant savings

And, by the way, if you are in need of CE credits, or just interested in catching up on current topics of interest and you value the opportunity to meet others in our profession from across the country, consider attending the 53rd Annual NAEPC Advanced Estate Planning Conference in Phoenix Arizona from November 16 through November 18, 2016. Visit http://www.naepc.org/conference for details about the conference and details about the educational sessions.

Finally, don't forget to register for our next Dinner Meeting on September 27, 2016, to be held at Orchard Lake Country Club. As a unique treat to those attending, our special guest artist (playing keyboards and singing) will be our former President, Terry Altman. Following our traditional networking reception, we have an interesting and thought provoking program on the social-psychological aspects of retirement. John Diehl, CFP, CLU, ChFC, Senior Vice President of The Hartford Funds will launch his presentation based on the following questions developed by the MIT AgeLab to provide a framework for thinking about retirement:

- Who will change my light bulbs?
- How will I get an ice cream cone?
- Who will I have lunch with?

I look forward to seeing you there.

Benson J. Barr, JD, CFP® AEP
FEPCMD President

Changes for Social Security Claiming Strategies

William F. Davis, CFP®

A report recently issued on the long-term outlook for Social Security's finances shows that the Trust Fund is projected to be empty sometime in 2034. This is actually good news, as the Fund had been expected to be exhausted a year earlier. Certainly not a cause for celebration, though.

Social Security has not collected enough in payroll tax to cover the benefits it's been paying out since 2010. It has made up for the shortfall by using some of the interest it collects on the Treasury Bonds held by the Trust Fund. As they said last year, in about 4 years (2020) the Trustees expect to begin gradually selling some of the bonds because at that point the interest alone won't be enough.

By 2034, there will be no Treasury bonds left. At that point, even though it will have used up the reserves it has been building up for decades, Social Security will still be collecting payroll taxes from those in the workforce. These will cover 75% of the benefits it projects it will need to pay out.

So after years of scary news about Social Security's worsening financial condition – and a recent report that confirms it – Congress finally made a move last year that equated to the most significant legislation since 1983.

With the passage of the Bipartisan Budget Bill of 2015 (the Budget Act) into law, three specific claiming strategies that had long been popular - the "file and suspend," the "restricted application," and the "retroactive benefits" methods - have been effectively eliminated for anyone born in 1954 or later.

This article will look at these eliminated methods, how the delayed retirement credits are calculated and how you can determine when you should begin taking benefits.

Claiming Strategies

Choosing one of these previously mentioned claiming strategies has long been a means for couples to maximize their Social Security benefits in the form of hundreds of thousands of dollars over a lifetime. However, these newly-implemented changes have effectively eliminated these strategies for anyone who hasn't been grandfathered in.

Let's take a look at each of these three options, how they work, and how they have changed:

File & Suspend

How It Works

This is where an individual, who is at least at full retirement age (age 66 if born between 1943 and 1954), files for his/her own retirement benefit and immediately suspends the receipt of those benefits. This establishes a date for filing for the individual, which now provides for dependent benefits (such as spousal benefits) to be paid based upon the filer's individual record. Since the receipt of retirement benefits has been suspended, this individual's future benefit will earn delayed retirement credits which equate to a growth rate of 8% per year, up to his or her age 70.

It is important to note that the "file" part is necessary to enable the dependent benefits to be paid based upon the account. The "suspend" part is only necessary if the individual wants to take advantage of the delayed retirement credits (where else can you get a guaranteed 8% annual return?!?!).

This technique was the best of both worlds: money was building up AND coming in. Not only were delayed retirement credits accruing, but it also opened up eligibility to the filer's spouse to collect spousal benefits.

Once the higher earner reached 70, then any suspension could be removed, and the benefits would adjust to a higher rate thanks to the building up of the delayed retirement credits.

How It Has Changed

For those who have already filed and suspended, this ideal scenario is still in effect.

For those who aren't grandfathered in, there are some big, life-altering changes ahead in Social Security filing policies. For these folks, the option to file-and-suspend while simultaneously enabling a spouse to claim on their record has been eliminated. As of May 1, 2016, if a spouse suspends his or her benefits, benefits for everyone involved – including the other spouse or qualifying dependent – will be suspended, too. This means your spouse won't be able to claim spousal benefits – and vice versa – if you voluntarily suspend benefits on your own record. In essence, now a suspension on the part of one equals a suspension for all.

Restricted Application

How It Works

The strategy allows a lower earning spouse to apply for benefits based on their husband's or wife's work record. This is where an individual, who is at least full retirement age, has not yet filed for retirement benefits and whose spouse has established a filing date (and could have suspended), files for only the spousal benefit that is based upon the spouse's record. This individual must specifically file a "restricted application" - this is important because if the individual

Changes for Social Security... - continued on page 4

THE FINANCIAL AND ESTATE PLANNING COUNCIL OF METROPOLITAN DETROIT
and
PLANNED GIVING ROUND TABLE OF SOUTHEAST MICHIGAN
present

*******SPOUSE'S/GUEST NIGHT*******

"What Do These 3 Questions Have to Do with Retirement Planning?"

Who will change my light bulbs? ● How will I get an ice cream cone? ● Who will I have lunch with?

presented by:

John D. Diehl, CFP®, CLU, ChFC

Senior Vice President
Hartford Funds

Retirement seems distant compared to daily dilemmas vying for our attention. But MIT AgeLab developed three simple questions to make retirement planning more manageable with a common-sense, thought-provoking place to start planning. John's presentation will focus on the social-psychological aspects of retirement.

TUESDAY, SEPTEMBER 27, 2016
Orchard Lake Country Club
5000 W. Shore Drive, Orchard Lake, MI 48324

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John Diehl is senior vice president of Strategic Markets for Hartford Funds. He and his team are responsible for engaging and educating financial advisors and their clients about current and emerging opportunities in the financial-services marketplace. These opportunities range from tactical strategies in areas such as retirement-income planning, investment planning, and charitable planning, to anticipating and preparing for long-term demographic and lifestyle changes. John also oversees Hartford Funds' relationship with the Massachusetts Institute of Technology AgeLab.

AGENDA:	**5:30 p.m.**	**Complimentary Cocktails**
		PLUS: Music Presented by Terry Altman, FEPCMD Past President
	6:30 p.m.	**Presentation**
	7:30 p.m.	**Dinner**

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Log onto our website by September 16, 2016 to make your reservation and pay with VISA or Master Card.
www.metrodetroitfepc.org

RESERVATIONS RECEIVED AFTER SEPTEMBER 16 WILL COST $85.00 PER PERSON.

OR PLEASE MAIL YOUR RESERVATION AND CHECK BY SEPTEMBER 16 TO: COST: $60.00 PER PERSON
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MEMBER NAME: ________________________ ***GUEST NAME:*** ________________________
TOTAL ENCLOSED: ________________________ **SPECIAL MEAL REQUESTS:**________________________
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who is filing has a retirement benefit of his or her own that either is larger or could eventually be larger than the spousal benefit, filing the restricted application allows his or her own retirement benefit to be delayed and future benefits will grow by the same 8% per year as mentioned above (again, where else can you get a guaranteed 8% annual return?!?!).

How It Has Changed

Whether you file for spousal or personal retirement benefits, you'll be "deemed" as filing for both, and thus receive the highest of the two.

Retroactive Benefits (Lump Sum)

How It Works

Above and beyond file and suspend, restricted application and "deeming," another part of the legislation eliminated the "retroactive benefits" provision, commonly called the "lump sum" option.

Retroactive benefits worked in conjunction with the file-and-suspend strategy. Previously, those who reached full retirement age and then delayed benefits had the option to undo this decision before reaching age 70, but without losing accumulated benefits. Upon undoing the suspension, a "lump sum" of all delayed benefits would be paid to the claimant.

How It Has Changed

A beneficial – and often necessary – option for those who would perhaps become terminally ill in their late 60s, retroactive benefits allowed them to receive their suspended Social Security benefits to offset medical costs or other expenses. Now, unless grandfathered in, this strategy is gone; while anyone can un-suspend receipt of benefits, they can no longer collect a retroactive lump sum.

Survivor Benefits

Although most everyone is affected by these policy changes – with the exception of those who are grandfathered in – there is one group that remains completely untouched in the Budget Act: those who will receive survivor benefits. Whether you're a surviving spouse, or a minor or disabled child whose parent passes away, your benefits should remain unchanged. And as with all benefits that stem from another's Social Security records, it helps to have reliable advice to determine the most financially sound path forward. This is a case in which variables can multiply exponentially.

Benefits for Former Spouses

One exception is for those who are no longer married - you may be able to receive spousal benefits based on your former spouse's work record. Your eligibility is contingent on the following conditions:

- You are currently unmarried.
- Your former marriage lasted 10 years or longer.
- You have been divorced for at least two years.
- You and your former spouse are age 62 or older, and your former spouse is entitled to Social Security benefits.

The good news is that your former spouse does not need to know that you've filed for a divorced spousal benefit, nor does he/she need to have filed (or followed the "file and suspend" method) for his or her own Social Security in order for you to claim it.

However, the other rules about initiating your divorced spousal benefits early are the same as those for married couples. Most importantly, if you claim it prior to full retirement age, the spousal benefit will be reduced. If you wait until your full retirement age to initiate spousal benefits, you can restrict your application to divorced spousal benefits only and then file based on your own work history, at age 70, maximizing your own benefits.

Delayed Retirement Credits

You may earn a credit for each month during the period beginning with the month you reach full retirement age and ending with the month you reach age 70. The benefit increase no longer applies when you reach age 70, even if you continue to delay taking benefits.

Basically, you earn 1 credit for each month you are fully insured and eligible but do not receive an old-age benefit, either because you do not apply for benefits or because you elect to voluntarily suspend your benefits to earn DRCs. Even if you were entitled to old-age benefits before full retirement age, you may still earn DRCs for months during the period from full retirement age to age 70, if you voluntarily elect to suspend those benefits.

How Social Security Computes Delayed Retirement Credits

The increase amount depends on your date of birth and the number of credits you earn; the number of credits need not be consecutive. Take the total number of credits and multiply that number by the applicable percentage from the table below. Then multiply the result by your benefit amount and add the result to your benefit amount.

Increase for Delayed Retirement		
Year of Birth	Yearly Rate of Increase	Monthly Rate of Increase
1933-1934	5.5%	11/24 of 1%
1935-1936	6.0%	1/2 of 1%
1937-1938	6.5%	13/24 of 1%
1939-1940	7.0%	7/12 of 1%
1941-1942	7.5%	5/8 of 1%
1943 or later	8.0%	2/3 of 1%

Note: If you were born on January 1st, you should refer to the rate of increase for the previous year.

Source: Social Security Administration

Example:

Bob was qualified for Social Security benefits when he reached age 65 on January 24, 1998. However, he decided not to apply the benefits immediately because he was still working.

When Bob became age 66 in January 1999, he retired and then applied for benefits beginning with that month. Based on his earnings, his primary insurance amount was $782.60. However, because he did not receive benefits immediately upon attainment of full retirement age (65), he is due an increase based on his Delayed Retirement Credits.

Bob earned 12 credits, one for each month from January 1998 through December 1998. Based on his date of birth of 1/15/1933 he is entitled to a credit of 11/24 of one percent for each month of delayed retirement:

12 DRCs x 11/24 of 1% = 5.5%

So this means that 5.5% of the primary insurance amount of $782.60 is $43.04 which is rounded down to $43.00, the next lower multiple of 10 cents. $43.00 is added to the primary insurance amount, $782.60. The result, $825.60 is the monthly benefit amount.

What is the Best Age to Start Your Benefits

Your monthly old-age benefit amount can differ substantially based on the age when you start receiving benefits. Specifically, if you decide to start benefits before your full retirement age, your benefit will be smaller but you will receive it for a longer period of time; if you decide to start benefits after your full retirement age, you will receive a larger monthly benefit for a shorter period of time. The amount you receive when you first get benefits sets the base for the amount you will receive for the rest of your life.

However, there are a number of factors that you might want to consider when making that decision. The Social Security website offers guidelines and a basic understanding of how to make an informed decision on when to apply for benefits, taking into account your lineage, health, health insurance coverage, and other family circumstances. It can be found at https://www.ssa.gov/planners/retire/otherthings.html.

Conclusion

When scarce resources are needed to help sustain more and more people, drastic measures need to be taken – and the Budget Act is a major step. While this article has addressed a number of changes to the system, there still remains a lot of uncertainty in regard to the Social Security system and its future.

Is this a precursor to a significant overhaul of the system? Will benefits continue to be reduced? Will they eventually be eliminated? How will this impact my retirement?

The good news here – at least for the time being – is that the delayed retirement credits can continue to accumulate up to age 70. However, if you're still well below retirement age, putting your trust in Social Security to provide most of your monthly income would not be a wise decision, given the increased cost of living coupled with the growing cost of healthcare.

Retirement income has traditionally been described as a "three-legged stool" comprised of income from Social Security, an employer pension plan, and personal savings and investments. With the slow demise of the traditional employer pensions, the automatic enrollment of 401(K)s to employees today, and the use of long-term care insurance, the current landscape of the three-legged stool is changing dramatically. This has now shifted the responsibilities of saving for retirement to us all. And planning for retirement is much too important to do on your own. We all truly need to become our own financial planning advocate - become as educated as you can on financial planning topics, and find a trustworthy financial advisor to help you set financial goals for you and your family.

William F. Davis, CFP ("Bill") is the Executive Vice President, Partner of Apex Financial Advisors, Inc. Bill joined Apex upon its inception in 2011 after having lead a training team at Janney Montgomery Scott in Philadelphia. He received an undergraduate degree from La Salle University, a graduate degree from Temple University, completed the Financial Planning Program at The American College and holds the distinguished CERTIFIED FINANCIAL PLANNER™ designation. He is currently completing a master's degree in Financial Services at St. Joseph's University in Philadelphia.

Through his work with Apex Financial Advisors, Bill focuses on building and preserving financial wealth for his clients by designing and implementing personalized, comprehensive financial plans. His goal-oriented and needs-based approach to financial planning utilizes a long-term asset allocation strategy within the context of each client's individual risk tolerance. His clients include high net worth individuals and families, privately-held business owners, and corporate executives.

SOURCES:

Official Social Security website (ssa.gov)

Cornell University Law School

USA Today

http://financialducksinarow.com/10657/the-death-of-file-suspend-and-restricted-application/

http://fnaohio.com/social-security-and-the-bipartisan-budget-act-of-2015-unfolded/

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