SARD
WEALTH MANAGEMENT GROUP, LLC

CLIENT NEWSLETTER **BY: JONATHAN SARD, CFP®**
3rd QUARTER - 2017

IMPORTANT INFORMATION

We will be emailing out our annual survey next month so please keep an eye out and be sure to take a few minutes to complete it. The survey is very helpful in determining the services you like and the services you feel need improvement.

The repeal and replacement of the Affordable Care Act is back in the headlines again and we will keep you posted on the outcome and we will continue to keep an eye on any potential tax reform legislation.

Social Security: Myths vs. Facts

Some myths & misperceptions keep circulating about Social Security. These are worth dispelling, as more and more baby boomers are becoming eligible for their retirement benefits.

Myth #1: Social Security will go away before you do. The federal government has announced that Social Security may become insolvent between 2033 and 2037 if no action is taken – but it is likely that Congress will act on the program's behalf. Social Security provides 40% of the total income of the 40 million Americans receiving retirement benefits.[1]

Did you know that Social Security has had a *surplus* each year since 1984? That situation is about to change. By about 2020, the program is projected to face a deficit, which it will tap incoming interest payments to offset. It will only be able to use that tactic until the mid-2030s. The program will not "run dry" or go bankrupt at that point, but by some estimates, its payments to retirees could become about 25% smaller.[1]

Myth #2: Your Social Security benefits are "your" money. It would be a fitting reward if your Social Security income represented the return of all the payroll taxes you had paid through the years. However, that is not the case. The payroll taxes you paid decades ago funded the Social Security benefits that went to retirees at that time. Your Social Security benefits will be funded by the payroll taxes that a younger generation pays.[2]

Myth #3: Social Security income is tax-free. In reality, up to 85% of your Social Security income may be taxed. Social Security uses a formula to determine the taxable amount, which is as follows: adjusted gross income + nontaxable interest + one-half of your Social Security benefit = your combined income. Single filers with combined incomes between $25,000-$34,000, and joint filers with combined incomes between $32,000-$44,000, may have as much as 50% of their benefits taxed. Single filers with combined incomes above $34,000, and joint filers with combined incomes above $44,000, may have up to 85% of their benefits subject to taxation.[2]

Myth #4: If you have never worked, you will never get Social Security benefits. This is not necessarily true. Technically, you have to work at least ten years to become eligible for Social Security income. That is, you have to spend ten or more years at jobs in which you pay Social Security taxes; you have to pay into the system to get something back from the system. Unfortunately, caregiving and child-rearing do not qualify you for Social Security.[1]

To get technical about it, you must accumulate 40 "credits" to become eligible for benefits. When you receive $1,260 in earned income, you get one credit. Another $1,260 in earned income brings you another credit, and so forth. You can receive up to four credits per year. Most people will collect their 40 credits in a decade, though others will take longer.[1]

If you have never worked, or worked for less than 10 years, you could still qualify for Social Security on the earnings record of your spouse, your ex-spouse, or your late spouse. A widow can choose to collect up to 100% of a deceased spouse's monthly benefit and a married spouse can collect up to 50% of the other spouse's monthly benefit. If you have divorced, you may still file for Social Security benefits based on your ex-spouse's earnings record – provided that the marriage lasted ten years or longer and you have not married again.[1]

So, what should you do now given this uncertainty? We always preach how important it is to plan. Be sure you are sitting down with us on a regular basis to discuss your entire financial situation. Each quarter we want to remind you to alert us to changes in your financial situation or investment objectives to ensure that we are aware of any situation that might require changes in the management of your accounts. Please remember to contact us to discuss how these changes impact your investment accounts!

Citations.
1 - fool.com/retirement/2016/07/18/12-jaw-dropping-stats-about-social-security.aspx [7/18/16]
2 - usatoday.com/story/money/personalfinance/2016/04/03/social-security-facts/81883222/ [4/3/16]

Financial Tip of the Month

Tax refund — spend it quickly or use it prudently?

More than 70 percent of taxpayers will receive tax refunds this year, with refunds averaging $2,860. If you're part of the majority, you may be wondering how to spend that extra cash. It's tempting to use it for a down payment on a new car or a Hawaiian vacation. Before that currency flows out of your bank account, consider the following, less exciting alternatives that may put you in a better financial place.

- **Pay down debt.** According to the Federal Reserve, the average annual interest rate on credit card debt has been hovering around 13 percent. If you carry a balance of $5,000 for a full year and the bank charges the average rate, you'll pay $650 in interest. Instead, why not use your refund to slash your credit card balance in half? You could save $325 this year and take one more step toward financial independence.

- **Pump up your emergency fund.** Many American households carry thousands of dollars in credit card debt from month to month, and much of that debt stems from unexpected bills or reduced income. A well-funded emergency account can help you avoid high-interest debt when you're faced with life's inevitable struggles. Try to accumulate a balance covering three to six months' living expenses.

- **Fund a retirement account.** Hoping to retire some day? Contribute your tax refund to an individual retirement account (IRA). This year, you can set aside a combined $5,500 in Traditional and Roth IRA

accounts ($6,500 if you're age 50 or older). If you contribute $5,500 every year from age 30 to age 65 and your account earns a 6% rate of return, your account balance when you retire at age 65 will be approximately $210,000.

- **Other ideas.** Set up a 529 college savings plan for your children's college tuition, allowing the money to grow tax-free for college bills. Fund a reserve for end-of-year holiday gifts. Donate all or a portion of the refund to your favorite charity. Take a college course to improve your career options.

Ultimately, the decision to spend your refund on something fun and a little more frivolous, or something prudent is completely your own. If you have questions about what's best for your financial situation, give us a call.

Please keep in mind that this tip is designed to be of help for you, but is not to be relied upon as advice. It is merely a reminder that there are many choices you have available to you, and that planning may be the only way to find the right answers for your situation. As with any financial issues, make sure you get the right information before making a decision. If you have any questions, we'll be glad to help you!

Client Quiz

Question: What is the top tax bracket for long term capital gains?

A. 10%
B. 15%
C. 20%
D. 39.6%

We wanted to thank those of you who have participated in our Client Introduction program. As you know, marketing for new clients takes a great deal of money, time, and energy and we would much rather spend our resources improving your financial health. We, like most businesses are looking to grow; however, for the benefit of our existing clients we are only able to take on a limited number of new clients each year. Over the years, we have learned that encouraging you to introduce us to people you know works well for all of us…we help you, and you help us. If you aren't familiar with our friends helping friends program, please call our office or be sure to ask us at your next meeting. The few minutes it takes to learn about how it works will be well worth your time and energy!

Answer: C. 20%. The top tax bracket for long term capital gains is 20% and depending on your marginal tax bracket, some taxpayers may fall in the 0% bracket!

If you would like some of your friends, coworkers, relatives, business acquaintances, etc. to receive a FREE subscription to this newsletter, please call our office and we'll add them to the mailing list. We'll also send them a note with their first issue telling them that you had suggested they receive the newsletter, and to contact us if they would like to stop at any time. If you enjoy this newsletter, why not share it for FREE with people you know, with no hassle for you?