

What To Know About Social Security

The Social Security Administration (SSA) recently announced that there will be no increase in retiree benefits in 2016 because of the low inflation rate. Cost-of-living adjustments (COLAs), which are based on a consumer price index for urban wage-earners, have been standard fare and most retirees expect them. In fact, this is only the third time without a yearly increase in Social Security retirement benefits since COLAs were instituted in 1975. (The other two occurred in 2010 and 2011.)

It may be small consolation, but the Social Security wage base for payroll taxes also won't go up, remaining at \$118,500 in 2016. This means the first \$118,500 of wages you earn in 2016 is subject to a 6.2% tax (or twice that if you're self-employed). There's also a tax for Medicare of 1.45% on all earnings.

Furthermore, the SSA has announced that the limits under the "earnings test" (the amount you can earn from working without forfeiting Social Security benefits) also are unchanged.

Did this "freeze" for 2016 catch you by surprise? If so, you're not alone. People from all walks of life, including those who already have retired, often don't fully understand the rules for Social Security or are unaware

of how complex the rules are. Use this quiz to test your personal knowledge of the subject:

1) The earliest age you can begin to receive Social Security retiree benefits is:

- a) age 59½.
- b) age 62.
- c) age 65.
- d) age 70.

2) The amount you will receive if you opt for early retirement may be reduced by as much as _____ for someone born in 1960 or later.

- a) 5%
- b) 10%
- c) 20%
- d) 30%

3) To get the maximum amount of Social Security benefits, you need to wait until _____ to begin receiving benefits.

- a) age 59½
- b) age 62
- c) age 65
- d) age 70

4) Spousal benefits are available to an unmarried ex-spouse if he or she was married to the beneficiary for at least:

- a) 3 years.

- b) 5 years.
- c) 10 years.
- d) 25 years.

5) Social Security retiree benefits are partially taxable if your benefits exceed _____ if you're a single tax filer and _____ if you're a joint filer.)

- a) \$10,000/\$25,000
- b) \$25,000/\$32,000
- c) \$50,000/\$100,000
- d) \$200,000/\$250,000

6) The age when a Baby Boomer born between 1943 and 1954 is able to receive full retirement benefits is:

- a) age 62.
- b) age 65.
- c) age 66.
- d) age 70.

7) For 2016, the maximum amount you're allowed to earn in the year you reach full retirement age—but before the month of your birthday—without forfeiting any benefits is:

- a) \$15,480.
- b) \$26,480.
- c) \$41,880
- d) \$55,880.

Answers: 1-b; 2-d; 3-d; 4-c; 5-b; 6-c; 7-c

Be Aware Of Your Tax Surroundings

When you trade stocks, bonds, or other capital assets, it makes sense to focus on the "bottom line"—whether you'll make or lose money, and how big your profit or loss may be. But what you're doing has tax consequences, too, and you need to be aware of what they are. And sometimes the likely tax ramifications of a transaction could influence whether you go ahead with it.

For simplicity, this discussion of tax-aware investing will look only at federal taxes, although there may be similar results on the state level.

Start with the basic premise that you can "net" any capital gains and

losses you realize during the year, with losses subtracted from your gains. Any excess loss can be used to offset up to \$3,000 of ordinary income, which is taxed at rates as high as 39.6%. If you have additional losses, you can carry them over to the following year.

Long-term capital gains are taxed at a maximum rate of 15%, or a top rate of 20% if you're in the top ordinary income tax bracket of 39.6%. To the extent that any of your long-term capital gains are taxed in the two lowest income tax brackets of 10% and 15%, the tax rate is 0%.

That can be especially beneficial to a tax-savvy investor. Suppose you

realize a net long-term capital gain of \$25,000 from a securities transaction this year. If you have \$15,000 of room to spare before you cross into the 25% tax bracket for ordinary income, there will be zero tax on the first \$15,000 of gain. The remaining \$10,000 then will be taxed at the 15% rate for long-term capital gains. In other words, you pocket \$25,000 of gain and pay a total capital gains tax of only \$1,500!

Short-term capital gains, meanwhile, are taxed at ordinary income rates. This could have an impact on how long you hold securities, perhaps convincing you to delay taking a profit until it qualifies as