

Planning News



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We hope you enjoy this issue of Planning News and its in depth and informative article content.

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Is the Government Double-Taxing Your Social Security Benefits?

It doesn't seem fair that your Social Security benefits should be taxed by the federal government. Isn't this an example of double-taxation?

Double-taxation of Social Security may actually be a misnomer, but the way the government calculates the taxes and handles your benefits makes it hard to follow. How do you determine how much of your Social Security benefits are subject to taxes? Start by adding half of your Social Security benefits in any given year and add that amount to all your other income—including tax-exempt interest, which is otherwise not taxed by the federal government. This number is known as your "combined income."

If you're a single filer and your "combined income" is above \$25,000 but below \$34,000, you'll pay taxes on 50% of your Social Security benefits. The same window is \$32,000 to \$44,000 for joint filers who combine their income and Social Security benefits to come up with their combined income figure. If your combined income is above \$34,000 (single filers) or \$44,000 (joint filers), then you can expect to pay taxes on 85% of Social Security benefits.

Meanwhile, the FICA tax that was originally collected from your paycheck should be thought of as a benefit to you when you get older—which means it probably shouldn't be thought of as a tax at all, but more like a contribution to a future annuity.

So one answer is that there is no double taxation at the federal level; in fact, there isn't even total single taxation, since the government never taxes 100% of your benefits.

But there's another way to look at it. The government is collecting its FICA payments after-tax, unlike an IRA contribution, which is made with pre-tax dollars. IRAs are not subject to double taxation because the money is not taxed initially when the contribution is made, but then is taxed as ordinary income when the money comes out. FICA payments are made with taxable income, and then taxed upon receipt either not at all, heavily or very heavily, depending on your income at the time.

Unfortunately, that's not the whole picture. 13 U.S. states collect taxes on at least some Social Security income. Minnesota, North Dakota, Vermont and West Virginia follow the same taxation rules as the federal government, so you might find yourself paying state taxes, plus federal taxes, on up to 85% of your benefits. Nebraska, Colorado, New Mexico, Connecticut, Kansas, Rhode Island, Missouri, Utah and Montana are a bit more lenient with deductions and exemptions, but also dip their hand into your Social Security checks.

There are ways to lower your taxable income lower in retirement, including having more money in Roth IRAs whose distributions don't show up on the tax form, and reducing the amount of money in your IRA—which reduces the

required minimum distributions. The Senior Citizens League has concluded that 44% of all Social Security recipients are paying no tax on their benefits, and at least some of that is the result of good planning. Those people are indisputable not subject to double taxation. Whether the other 56% are, including those living in states that tax Social Security benefits, depends on your point of view.

Data Protection Protocols

Our personal information has never been so easy to steal. And mostly we have ourselves to blame.

Come again? Companies and consumers have been warned against sending out sensitive information as e-mail attachments. And yet many companies still send out credit card forms and signature details. Medical offices use e-mail for their patient communication. People accept and return e-mails with attachments that contain everything from their financial balances to their medical history. After all, the message is directed only to the recipient, so what can go wrong?

E-mails are particularly vulnerable to cyber theft because they are stored in a variety of places, including, of course, the sender's and receiver's device. If someone hacks into your computer, your e-mail is just sitting there for them to read. Rifling through e-mail is now the most common process of malware, and malware is everywhere. The other points of possible attack are your Internet Service Provider and the sender's or recipient's. If your e-mail is hosted on a service provider like Gmail, then it, too, is subject to attack. There are network connections between these e-mail providers. How could you possibly know if all those connections are secure?

And that's not the only places where a copy of your e-mail might be stored. Each e-mail service provider keeps messages in archive on its own servers, which can be hacked and messages downloaded by cyber thieves. The bottom line: once an e-mail message leaves your server, or leaves the sender's server, it's out of control.

What can you do? The first and simplest rule of cyber safety is never to send sensitive information in an e-mail message or an attachment. That means avoid including Social Security numbers, passwords, sensitive tax or investment account information, and even date of birth in your messages, even to people you trust. If you must communicate this type of information, there are a variety of much safer ways to share information, including ShareFile, PeerLink, Box, FileCloud and DropBox. Or you could encrypt your e-mail messages using programs like Infoencrypt or SafeGmail. The messages are encrypted at the sender's computer and decrypted within the recipient's browser, and they remain encrypted in both the sender's and receiver's e-mail boxes. Hackers who gain access to your computer, to the service providers or the archives come away with nothing but unreadable gibberish.

Yes, protecting yourself sounds like a hassle. But all of these programs, and others, are much more user-friendly than they were ten years ago. And being careful with your messages is a lot less

time and trouble than dealing with a stolen identity or having your personal information floating around the Dark Web.

Key Estate Planning Documents

Estate planning is the process of managing and preserving your assets while you are alive, and conserving and controlling their distribution after your death. There are four key estate planning documents almost everyone should have regardless of age, health, or wealth. They are: a durable power of attorney, advance medical directives, a will, and a letter of instruction.

Durable power of attorney

Incapacity can happen to anyone at any time, but your risk generally increases as you grow older. You have to consider what would happen if, for example, you were unable to make decisions or conduct your own affairs. Failing to plan may mean a court would have to appoint a guardian, and the guardian might make decisions that would be different from what you would have wanted.

A durable power of attorney (DPOA) enables you to authorize a family member or other trusted individual to make financial decisions or transact business on your behalf, even if you become incapacitated. The designated individual can do things like pay everyday expenses, collect benefits, watch over your investments, and file taxes.

There are two types of DPOAs: (1) an immediate DPOA, which is effective at once (this may be appropriate, for example, if you face a serious operation or illness), and (2) a springing DPOA, which is not effective unless you become incapacitated.

Advance medical directives

Advance medical directives let others know what forms of medical treatment you prefer and enable you to designate someone to make medical decisions for you in the event you can't express your own wishes. If you don't have an advance medical directive, health-care providers could use unwanted treatments and procedures to prolong your life at any cost.

There are three types of advance medical directives. Each state allows only a certain type (or types). You may find that one, two, or all three types are necessary to carry out all of your wishes for medical treatment.

- A living will is a document that specifies the types of medical treatment you would want, or not want, under particular circumstances. In most states, a living will takes effect only under certain circumstances, such as a terminal illness or injury. Generally, one can be used only to decline medical treatment that "serves only to postpone the moment of death."

- A health-care proxy lets one or more family members or other trusted individuals make medical decisions for you. You decide how much power your representative will or won't have.
- A do-not-resuscitate (DNR) order is a legal form, signed by both you and your doctor, that gives health-care professionals permission to carry out your wishes.

Will

A will is quite often the cornerstone of an estate plan. It is a formal, legal document that directs how your property is to be distributed when you die. If you don't leave a will, disbursements will be made according to state law, which might not be what you would want. There are a couple of other important purposes for a will. It allows you to name an executor to carry out your wishes, as specified in the will, and a guardian for your minor children.

The will should be written, signed by you, and witnessed.

Most wills have to be probated. The will is filed with the probate court. The executor collects assets, pays debts and taxes owed, and distributes any remaining property to the rightful heirs. The rules vary from state to state, but in some states smaller estates are exempt from probate or qualify for an expedited process.

Letter of instruction

A letter of instruction is an informal, nonlegal document that generally accompanies your will and is used to express your personal thoughts and directions regarding what is in the will (or about other things, such as your burial wishes or where to locate other documents). This can be the most helpful document you leave for your family members and your executor.

Unlike your will, a letter of instruction remains private. Therefore, it is an opportunity to say the things you would rather not make public.

A letter of instruction is not a substitute for a will. Any directions you include in the letter are only suggestions and are not binding. The people to whom you address the letter may follow or disregard any instructions.

Take steps now

Life is unpredictable. So take steps now, while you can, to have the proper documents in place to ensure that your wishes are carried out.

Why Not Do It Now? New Research on Procrastination

Do you have a tendency to push off important tasks? Do you do things at the last minute, or maybe not do them at all? If so, you're

not alone. About one in five adults is a chronic procrastinator.

Procrastination can be frustrating in the short term for even the simplest tasks. But it can have far-reaching effects on important activities and decisions such as completing work projects, obtaining medical treatment, and saving for retirement. Recent research offers insights that may be helpful if you or someone you know has a tendency to procrastinate.

Blame the brain

A study using brain scans found that the amygdala, the almond-shaped structure in the temporal lobe of the brain that processes emotions (including fear), was larger in chronic procrastinators, and there were weaker connections between the amygdala and a part of the brain called the dorsal anterior cingulate cortex (DACC). The amygdala warns of potential dangers, and the DACC processes information from the amygdala and decides what action a body will take.

According to the researchers, procrastinators may feel more anxiety about the potential negative effects of an action and be less able to filter out interfering emotions and distractions. The good news is that it is possible to shrink the amygdala and improve brain connectivity through mindfulness meditation exercises.

What's important to you?

Another recent study found that people were less likely to procrastinate about tasks that they personally considered important and were within their own control, as opposed to tasks that were assigned to them and/or controlled by others. This is probably not surprising, but it suggests that procrastination may not be a "weakness" but rather a result of personal values and choices.

Tips for procrastinators

Here are a few suggestions that may help overcome a tendency to procrastinate.

Consider the triggers: One researcher found that people are more likely to procrastinate if a task is characterized by one or more of these seven triggers: boring, frustrating, difficult, ambiguous, unstructured, not intrinsically rewarding, or lacking in personal meaning.⁵ You might try to identify the triggers that are holding you back and take steps to address those specific problems. For example, if a task seems too difficult, ambiguous, or unstructured, you could break it down into smaller, more definite, and manageable tasks.

Meet your resistance: If you don't want to work on a task for an hour, determine how long you are willing to work on it. Can you work on it for 30 minutes? What about 15? If you don't want to do it today, what day would be better?

List the costs and benefits: For big projects, such as saving for retirement, make a list of all the negative ways not making progress