Panorama

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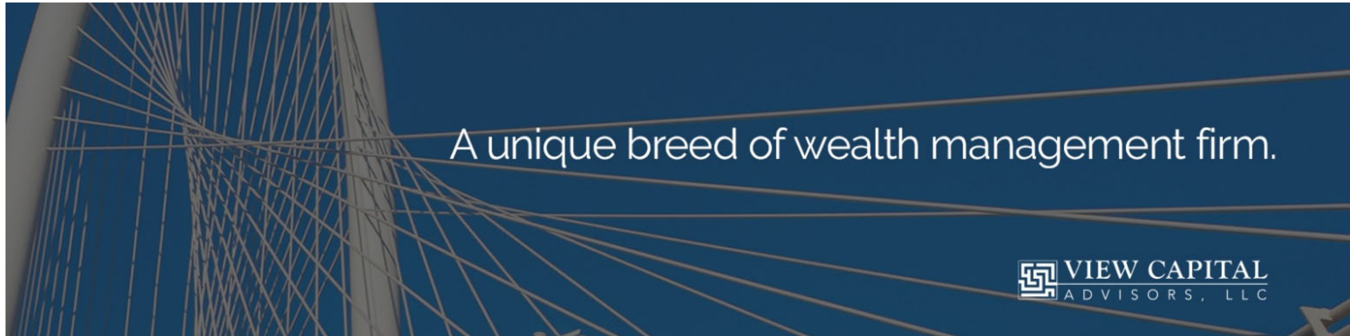

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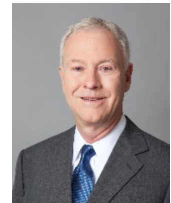

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SOCIAL SECURITY – DELAYED CLAIMING STRATEGY

Full Retirement Age (FRA) is the Social Security term that describes the point at which you can claim 100% of your earned social security retirement benefits. The Social Security Administration calculates a monthly actuarial retirement income benefit for you as of your FRA based upon your historical earnings record. The Social Security rules are designed to pay everyone roughly the same lifetime benefit, no matter when they decide to claim benefits, according to life expectancy tables and your personal earnings record. Depending on your birth year, most everyone has a FRA of around age 66.

You don't have to wait until you reach your FRA to claim your social security retirement benefit. You do have the option to claim your retirement benefit sooner, as early as your age 62. Conversely, you can delay claiming your monthly retirement benefit past your FRA. Your calculated FRA benefit is reduced if you claim early, but it can also be increased through delayed retirement credits by claiming later than your FRA. However, additional delayed credits cease after you reach age 70.

So, a person who claims at age 62 will receive a monthly benefit considerably smaller than if he claims at age 66—but he will probably collect those benefits for a greater number of years assuming normal life expectancy. Conversely, a delayed claim will give him a higher monthly benefit—but for a shorter period of time, since the benefit is only paid while you are alive.

For example, a person with a FRA of 66 who claims at age 62 will receive a reduced benefit for the rest of his or her life—approximately 25% lower. Claiming at FRA is worth approximately 33% more in monthly income than a claim at 62, and a claim at age 70 is worth 76% more than age 62. While this math is straightforward, the critical information you do not have is how long you will live so that you can determine the claiming strategy that will optimize your retirement benefit.

Most individuals give consideration to the life expectancies of their parents as a predictor of their likely life expectancy. Statistics indicate that wealthier, better educated retirees tend to enjoy greater longevity, and will benefit from delayed claiming. So will married couples in cases where the higher-earning spouse delays.

In this time of high inflation, it is worth noting that delayed claiming does not mean you will forego the valuable annual cost-of-living adjustments (COLA) built into Social Security. The COLAs are applied to your benefit amount even if you have not yet claimed, beginning in the year that you become eligible to claim. So not only are you getting an annual 8% delayed retirement credit, but the credit is applied to your annual COLA adjusted benefit!

The maximum Social Security retirement benefit that you can receive depends on the age when you begin collecting and your earnings history, among other factors. In 2022, the maximum (a lifetime high income earner) is $3,345 per month for someone who files at full retirement age (age 66) and $4,194 is the absolute highest benefit in 2022 for those who qualify and delay claiming until age 70.

On October 13, 2022 the Social Security Administration announced the largest inflation adjustment to benefits in over 40 years. Roughly 70 million Americans, including retirees, those who are disabled, widowers, and others, will see an 8.7% COLA beginning in 2023.

2022 YEAREND TAX PLANNING

As we approach the end of 2022, you should plan on consulting with your tax preparer for any actions you might take to reduce your 2022 federal income tax bill. Following are some of the more common planning strategies and observations to discuss with your tax advisor.

Tax-loss harvesting – i.e., selling investments at a loss to capture a tax deduction while reinvesting the proceeds to maintain market exposure – is a popular strategy to boost your after-tax investment returns.

The value of harvesting losses is dependent on an individual's personal tax situation. There is no universal loss harvesting strategy that can expect to deliver the same benefits to all investors. Further complicating the exercise, care must be taken to avoid running afoul of the IRS' wash sale rules, which could disallow losses and negate the value of the strategy altogether.

Some might wonder with the current market downturn, whether there is any value to "stocking up" by realizing capital losses today even if they substantially exceed your actual capital gains for the year. Any capital losses that you cannot use in a tax year will carry forward to as many tax years as it takes to fully offset future capital gains, so it sounds like a smart idea. Maybe, but there are some downsides to carrying over losses. One risk is that if the taxpayer dies before all carryover losses are used up, all such carryovers are lost upon the taxpayer's death. Another factor is the time value of money impact on the carryovers. Loss carryovers only provide you with an economic benefit by reducing taxes to the extent you can offset them against your capital gains. If you do not expect to realize any gains of significance or only in the distant future, then the losses will have little economic value to you today.

In the context of tax planning, here are some interesting tax rules to be aware of pertaining to managing your capital gains and losses:

1. Believe it or not, there is a 0% rate bracket for long term capital gains, long term being defined as a holding period of more than one year. In 2022, if your taxable income is less than $40,400 for singles or $80,800 for married filing jointly you'll pay zero tax on your long term capital gains.
2. The next long term capital gains rate brackets are 15%, 20%, and an additional 3.8% net investment income tax on long term gains above a certain taxable income level.
3. Your ordinary income level makes up your taxable income and therefore pegs the rate that might apply to your long term capital gains. But the reverse does not apply in that the amount of capital gains recognized during the tax year does not push your ordinary income into a higher rate bracket.
4. Net short term capital gains are taxed at ordinary income rates which vary by your level of taxable income.
5. Qualified dividends are taxed at long term capital gains rates which are determined from your level of taxable income.
6. Capital gains distributions from mutual fund or ETF shares are taxed as long term capital gains, no matter how long you have owned shares of the fund. That means a tax rate of 0%, 15%, or 20% may apply, depending on your taxable income.
7. There is a netting process to determine how much long and short term gain or loss you have in a tax year. You first net all short term gains and losses. Then you net long term gains and losses. Then, you "net the two nets" to determine your taxable capital gains position for the year.
8. Any net capital loss can offset up to $3,000 of ordinary income in a given tax year. Any net capital loss in excess of $3,000 of ordinary income will carry forward indefinitely for use in future tax years. But as mentioned above, any unused capital loss carryforwards will expire at your death.
9. Any unrealized appreciation in your capital assets is erased at death due to a cost basis step up to fair market value as of date of death.

10. Donating an appreciated stock or mutual fund to charity gets the donor a charitable income tax deduction for the full fair market value of the donated shares. But this only applies to donations of long term capital gain assets. When the charity sells the stock, it will not pay tax on the capital gain.
11. Loss harvesting can serve two purposes. The first is to reduce the tax impact of realized capital gains during the year. Second, the strategy can produce tax deferral by claiming capital losses at a higher tax rate today than the recovery gain tax rate on repurchased securities when they are later sold.

PLANNING FOR DIMINISHED CAPACITY

We all have friends and family members who are aging and have shown signs of forgetfulness. Unfortunately, it happens to all of us as we age. It can be devastating to receive an Alzheimer's or other form of Dementia diagnosis. But getting help sooner rather than later may prevent accidents, financial problems, and other troubling consequences of Dementia behaviors in our elderly friends and family.

"Financial capacity" is generally defined as "the capacity to manage money and financial assets in ways that meet a person's needs and which are consistent with his/her values and self-interest." Early warning signs of possible diminished capacity might include:

- Increased disorganization; bills go unpaid
- Difficulty with simple tasks such as signing your name
- Spending and gifts that are uncharacteristic of the person's values or practices
- A new person enters the picture who wields unusual influence
- Problems with speaking or writing words
- Repeating conversations or not remembering conversations

Some modest loss of financial capacity can be expected as a normal part of aging, as indicated by many research studies that have shown financial capacity tends to decline with age. Notably though, there is a difference between a modest, age-related decline in financial capacity, and a medical syndrome like Dementia that causes physiological problems with memory, thinking, and behavior.

Regardless of its cause, Dementia almost always involves progressive cognitive decline, which means that you cannot pinpoint precisely when or how quickly the disease will progress, but that it will become steadily worse with time. Having personally experienced Dementia in an elderly parent, my first reaction was to deny that anything was wrong, and I chalked it up to "getting older". When a person first starts to notice his/her own symptoms of cognitive decline, he or she tends to hide them for fear of losing the liberties and privileges associated with their lifestyle. You know, it brings on the conversation with family members of moving into the nursing home and taking away the keys to the car. Keep in mind that a person

with Alzheimer's generally lives four to eight years after diagnosis, but can live as long as 20 years, depending on other factors.

You have to learn ways your loved one may be covering up Dementia symptoms and understand steps you can take to help. Should a person's cognitive abilities decline to a level where they can no longer manage their own affairs, big problems can result in managing day to day affairs unless you have a contingency plan in place. What exactly can you do and what should you do?

1. Create and fund a revocable living trust for the individual and name one or more trustees or successors to step in as trustee when the situation requires. That way, a successor can take over managing things seamlessly.
2. Have a Durable General Power of Attorney where the individual names an agent to act on his behalf for financial matters. The term "Durable" means that the agent's appointment will survive the principal's disability. Many Durable General Powers of Attorney even authorize the agent to fund a revocable living trust and operate under a successor trustee.
3. Designate "Trusted Contact" names on investment accounts such as a friend or family member who can serve as the account owner's advocate if financial exploitation is suspected. Note that this is not a power of attorney for the Trusted Contact to act on behalf of the individual.
4. If none of these are in place before the cognitive decline overtakes the situation, you will be left to the courts and asking a judge to appoint a guardian to supervise the person and financial affairs of the individual. This is a continuing court supervised process for the rest of the individual's life, and can be expensive.

It is going to happen to all of us, our friends and our family. So the best thing to do is to have a plan and execute it.

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We seek to bring wealth planning best practices and a wide range of non-proprietary solutions to our clients. We also conduct our own research and diligence on world markets and investment alternatives.

For further information, please contact your investment representative or one of our wealth planning specialists:

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