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Check out our newly updated website www.iwmpartners.com for upcoming events and important notices.

To request a formal invitation to one of the events above, please email Dana at dpecenka@iwmpartners.com or by calling us at (714) 962-8000

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Should You Pay Off Your Home Before You Retire ?

Before you make any extra mortgage payments, consider some factors

Should you own your home free and clear before you retire? At first glance, the answer would seem to be "absolutely, if at all possible." Retiring with less debt … isn't that a good thing? Why not make a few extra mortgage payments to get the job done? In reality, things are not so cut and dried. There is a fundamental opportunity cost to consider. If you decide to put more money toward your mortgage, what could that money potentially do for you if you were to direct it elsewhere? In a nutshell, the question is: should you pay down low-interest debt, or should you invest the money into a tax-advantaged account that could potentially bring you a strong return?

Relatively speaking, home loans are cheap debt. Compare the interest rate on your mortgage to the one on your credit card. Should you focus your attention on a debt with 6% interest or a debt with 15% interest? You can usually deduct mortgage interest, so if your home loan carries a 6% interest rate, your after-tax borrowing rate could end up being 5% or lower. If history is any barometer, your home's value may increase over time and inflation will effectively

Can You Get More Income by Reapplying for Social Security

Years ago, retirees exploited loopholes in Social Security's framework to dramatically increase their lifetime Social Security benefits. Many of the tactics they used are no longer permitted, but there are still a couple of ways to restart those retirement benefits in pursuit of higher monthly income.

Once, retirees could hit "reset" on their benefits, years after first receiving them. They could repay the federal government an amount equal to the benefits they had already received, and then reapply for benefits at their current, older age. Basically, they were boosting their monthly incomes after repaying an interest-free loan from Uncle Sam. The Social Security Administration closed this loophole in late 2010. Too many retirees were taking advantage of it, and the SSA's tolerance had worn thin. Only a limited form of this loophole is still around (see below).[1]

Until 2016, many married couples could employ two other, savvy strategies. Through the "file and suspend" and "file and restrict" methods, they could try to arrange greater lifetime Social Security income. Under the "file and suspend" method, a higher-earning spouse could apply for benefits, suspend them, and let the lower-earning spouse file for spousal benefits only. This let retiree households receive some spousal benefits, while both spouses waited to receive (what would, eventually, be) larger, individual benefits.[2] "File and restrict" (also called "deemed filing") was a variation on this: a retiree could claim only spousal benefits, while his or her own benefits grew larger with time. The "deemed filing" loophole is rapidly closing. Individuals (who were age 62 on or after January 2, 2016) can no longer get one kind of retirement benefit from Social Security while accumulating credits for delaying another.2,3 Today, individuals can still "file and suspend" their benefits – but now, this choice suspends spousal benefits as well. (This does not apply to Social Security recipients who voluntarily suspended their individual benefits before April 30, 2016.)2,3

Most of the loopholes that let retirees do this are gone, but two possibilities remain.

There are still two ways to possibly realize larger monthly benefits. An individual who has received Social Security benefits for 12 months or less may be eligible to withdraw his or her application and apply for benefits again at a later date. Social Security lets a person do this only once. Form SSA-521 is the document to use. The reason for withdrawing the application must be clearly stated, and others who get benefits based on the individual's work history must also give their consent to the decision. The person who withdraws their application must pay back any retirement benefits already received.4 At Full Retirement Age (FRA), which is 66 or 67 in the case of baby boomers, a Social Security recipient can choose to suspend his or her monthly retirement benefit until as late as age 70. (Benefits will automatically restart at that age.) No payback of benefits already received is necessary; the benefits are just suspended until the individual decides to restart them, or turns 70, whichever comes first. The decision, however, has a couple of downsides, however. Any linked, spousal retirement benefits will also be suspended, and the individual will have to pay his or her own Medicare Part B premiums during this time.4

Knowing when to apply for Social Security is crucial. This may be one of the most important financial decisions you make for retirement, and it cannot be made casually. Be sure to consult the financial professional you know and trust before you apply for retirement benefits.

— **Shawn**

1 - time.com/money/3592414/social-security-rule-change-benefit-withdrawals/ [12/2/14]
2 - thestreet.com/story/13426147/1/social-security-loopholes-are-closing-here-are-new-strategies-for-maximizing-benefits.html [1/17/16]
3 - ssa.gov/planners/retire/claiming.html [10/12/16]
4 - fool.com/retirement/2016/06/13/how-do-i-withdraw-my-social-security-application.aspx [6/13/16]

reduce the real amount of your mortgage over time.

Making mortgage prepayments may not be the right choice. It's important to look at the math and examine the tradeoff between prepaying your mortgage and tax-deferred retirement savings. In her MSN Money article, Should I Save More for Retirement or Pay Down My Mortgage?, Stacy Johnson noted "For most people, mortgage interest is tax-deductible, retirement plan contributions are deductible and their earnings are tax deferred. This tax arbitrage makes retirement contributions a better choice, at least for some."1 You save taxes on each dollar you direct into IRAs, 401(k)s, and other tax-deferred investment vehicles. Those invested dollars have the chance for tax-free growth. If you are like a lot of people, you may enter a lower tax bracket in retirement, so your taxable income and federal tax rate could be lower when you withdraw the money out of that account. Another potential benefit of directing more funds toward your 401(k): If the company you work for provides an employer match, then you may be able to collect more of what is often dubbed "free money". Let's turn from tax-deferred retirement investing altogether and consider insurance and college planning. Many families are underinsured and the money for extra mortgage payments could optionally be directed toward long term care insurance or disability coverage. If you've only recently started to build a college fund, putting the assets into that fund may be preferable. Let's also remember that money you keep outside the mortgage is money that is generally easier to access.

What if you owe more than your house is worth? Prepaying an underwater mortgage may seem like folly to you – or maybe you really love the house and are in it for the long run. Even so, you could reallocate money that could be used for the home loan toward an emergency fund, or insurance, or some account with the potential for tax-deferred growth – when all the factors are weighed, it might look like the better move.

Think it over. It really comes down to what you believe. If you are bearish, then you may lean toward paying off your mortgage before you retire. There is no doubt about it - when you pay off debt you owe, you effectively get an instant return on your money for every dollar. If you are tantalizingly close to paying off your house, then you may just want to go ahead and do it because you love being free and clear. On the other hand, model scenarios may tell you another story. After the numbers are run, you may want to direct the money to other financial priorities and opportunities, especially if you tend to be bullish and think the market will perform along the lines of its long-term historical averages. No one path is right for everyone. If you're unsure which direction may be most beneficial to you, speak with a qualified Financial Professional.

— Mico

1 - msn.com/en-us/money/retirement/should-i-save-more-for-retirement-or-pay-down-my-mortgage/ar-AAgYTpT?li=BBnb7Kz [6/13/16]

Your 2017 Financial To-Do List

Things you can do for your future as the year unfolds.

1 - forbes.com/sites/ashleaebeling/2016/10/27/irs-announces-2017-retirement-plans-contributions-limits-for-401ks-and-more/ [10/27/16] 2 - turbotax.intuit.com/tax-tools/tax-tips/General-Tax-Tips/4-Last-Minute-Ways-to-Reduce-Your-Taxes/INF22115.html [10/24/16] 3 - irs.gov/Retirement-Plans/Traditional-and-Roth-IRAs [12/8/16] 4 - fidelity.com/viewpoints/personal-finance/new-medicare-taxes [9/30/16] 5 - irs.gov/uac/Newsroom/Six-Tips-for-Charitable-Taxpayers [5/19/15] 6 - marketwatch.com/story/what-to-know-when-deducting-charitable-donations-2016-02-23 [3/12/16] 7 - irs.gov/Businesses/Small-Businesses-&-Self-Employed/Home-Office-Deduction [9/27/16] 8 - shrm.org/resourcesandtools/hr-topics/benefits/pages/irs-sets-2017-hsa-contribution-limits.aspx [5/2/16] 9 - fool.com/retirement/general/2016/04/11/required-minimum-distributions-common-questions-ab.aspx [4/11/16] 10 - smartasset.com/retirement/is-social-security-income-taxable [3/10/16]

Can you contribute more to your retirement plans this year? In 2017, the contribution limit for a Roth or traditional IRA remains at $5,500 ($6,500 for those making "catch-up" contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA: singles and heads of household with MAGI above $133,000 and joint filers with MAGI above $196,000 cannot make 2017 Roth contributions.1 For TY 2017, you can contribute up to $18,000 to any kind of 401(k), 403(b), or 457 plan, with a $6,000 catch-up contribution allowed if you are age 50 or older. If you are self-employed, you may want to look into whether you can establish and fund a Solo 401(k) before the end of 2017; as employer contributions may also be made to Solo 401(k)s, you may direct up to $54,000 into one of those plans this year.1 Your retirement plan contribution could help your tax picture. If you haven't turned 70½ this year and you participate in a traditional qualified retirement plan or have a traditional IRA, you can cut your 2017 taxable income through a contribution. Should you be in the 35% federal tax bracket, you can save $1,925 in taxes as a byproduct of a $5,500 regular IRA contribution.2 What are the income limits on deducting traditional IRA contributions? If you participate in a workplace retirement plan, the 2017 MAGI phase-out ranges are $62,000-$72,000 for singles and heads of households, $99,000-$119,000 for joint filers when the spouse making IRA contributions is covered by a workplace retirement plan, and $186,000-$196,000 for an IRA contributor not covered by a workplace retirement plan, but married to someone who is.1 Roth IRAs and Roth 401(k)s, 403(b)s, and 457 plans are funded with after-tax dollars, so you may not take an immediate federal tax deduction for your contributions to these plans. The upside is that if you follow IRS rules, the account assets may eventually be withdrawn tax free.3 Your TY 2017 contribution to a Roth or traditional IRA may be made as late as the 2018 federal tax deadline – and, for that matter, you can make a 2016 IRA contribution as late as April 18, 2017, which is the deadline for filing your 2016 federal return. There is no merit in waiting until April of the successive year, however, since delaying a contribution only delays tax-advantaged compounding of those dollars.3

Should you go Roth in 2017? You might be considering that if you only have a traditional IRA at this point. This is no snap decision; the tax impact of the conversion must be weighed versus the potential future benefits. If you are a high earner, you should know that MAGI phase-out limits may affect your chance to make Roth IRA contributions. For 2017, phase-outs kick in at $186,000 for joint filers and $118,000 for single filers and heads of household. Should your MAGI prevent you from contributing to a Roth IRA at all, you still have the chance to contribute to a traditional IRA in 2017 and then go Roth.1 Incidentally, a footnote: distributions from Roth IRAs, traditional IRAs, and qualified retirement plans, such as 401(k)s are not subject to the 3.8% Medicare surtax affecting single/joint filers with AGIs over $200,000/$250,000. If your AGI surpasses these MAGI thresholds, then dividends, royalties, the taxable part of non-qualified annuity income, taxable interest, passive income (such as partnership and rental income), and net capital gains from the sale of real estate and investments are subject to that surtax.4 Consult a tax or financial professional before you make any IRA moves to see how they may affect your overall financial picture. If you have a large traditional IRA, the projected tax resulting from a Roth conversion may make you think twice.

What else should you consider in 2017? There are other things you may want to review or do. Make a charitable gift. You can claim the deduction on your 2017 return, provided you itemize your deductions with Schedule A. The paper trail is important here.5 If you give cash, you need to document it. Even small contributions need to be demonstrated by a bank record, payroll deduction record, credit card statement, or written communication from the charity with the date and amount. Incidentally, the IRS does not equate a pledge with a donation. If you pledge $2,000 to a charity this year, but only end up gifting $500, you can only deduct $500.5 What if you gift appreciated securities? If you have owned them for more than a year, you will be in line to take a deduction for 100% of their fair market value, and avoid capital gains tax that would have resulted from simply selling the investment, and then donating the proceeds. (Of course, if your investment is a loser, it might be better to sell it and donate the money, so you can claim a loss on the sale and deduct a charitable contribution equal to the proceeds.)6 Does the value of your gift exceed $250? It may, and if you gift that amount or larger to a qualified charitable organization, you will need a receipt or a detailed verification form from the charity. You also have to file Form 8283 when your total deduction for non-cash contributions or property in a year exceeds $500.5 If you aren't sure if an organization is eligible to receive charitable gifts, check it out at irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check.

See if you can take a home office deduction. If your income is high and you find yourself in one of the upper tax brackets, look into this. You may be able to legitimately write off expenses linked to the portion of your home used to exclusively conduct your business. (The percentage of costs you may deduct depends on the percentage of the square footage of your residence you devote to your business activities.) If you qualify for this tax break, part of your rent, insurance, utilities, and repairs may be deductible.7

Open an HSA. If you are enrolled in a high-deductible health plan, you may set up and fund a Health Savings Account in 2017. You can make fully tax-deductible HSA contributions of up to $3,400 (singles) or $6,750 (families); catch-up contributions of up to $1,000 are permitted for those 55 or older who aren't yet enrolled in Medicare. Moreover, HSA assets grow untaxed, and withdrawals from these accounts are tax free if used to pay for qualified health care expenses. In most cases, withdrawals are hit with a 20% IRS penalty if they aren't used to pay for qualified medical expenses.8

Practice tax-loss harvesting. By selling underperforming stocks in your portfolio, you could record at least $3,000 in capital losses. In fact, you may use this tactic to offset all of your total capital gains for a given tax year. Losses that exceed the $3,000 yearly limit may be rolled over into 2018 (and future tax years) to offset ordinary income or capital gains again.2

Pay attention to asset location. Tax-efficient asset location is an ignored fundamental of investing. Broadly speaking, your least tax-efficient securities should go in pre-tax accounts, and your most tax-efficient securities should be held in taxable accounts.
Review your withholding status. Should it be adjusted due to any of the following factors?
* You tend to pay a great deal of income tax each year.
* You tend to get a big federal tax refund each year.
* You recently married/divorced
* A family member recently passed away.
* You have a new job and you are earning much more than you previously did.
* You started a business venture or became self-employed.

Are you marrying in 2017? If so, why not review the beneficiaries of your workplace retirement plan account, your IRA, and other assets? In light of your marriage, you may want to make changes to the relevant beneficiary forms. The same goes for your insurance coverage. If you will have a new last name in 2017, you will need a new Social Security card. Additionally, the two of you, no doubt, have individual retirement saving and investment strategies. Will they need to be revised or adjusted with marriage?

Are you coming home from active duty? If so, go ahead and check the status of your credit and the state of any tax and legal proceedings that might have been preempted by your orders. Make sure any employee health insurance is still there, and revoke any power of attorney you may have granted to another person.

Consider the tax impact of any upcoming transactions. Are you planning to sell any real estate this year? Are you starting a business? Do you think you might exercise a stock option? Might any large commissions or bonuses come your way in 2017? Do you anticipate selling an investment that is held outside of a tax-deferred account? Any of these actions might significantly affect your 2017 taxes.

If you are retired and older than 70½, remember your year-end RMD. Retirees over age 70½ must begin taking Required Minimum Distributions from traditional IRAs and 401(k), 403(b), and profit-sharing plans by December 31 of each year. The IRS penalty for failing to take an RMD equals 50% of the RMD amount that is not withdrawn.9 If you turned 70½ in 2016, you can postpone your initial RMD from an account until April 1, 2017. The downside of that is that you will have to take two RMDs this year, with both RMDs being taxable events – you will have to make your 2016 tax year RMD by April 1, 2017 and your 2017 tax year RMD by December 31, 2017.9 Plan your RMDs wisely. If you do so, you may end up limiting or avoiding possible taxes on your Social Security income. Some Social Security recipients don't know about the "provisional income" rule – if your adjusted gross income, plus any non-taxable interest income you earn, plus 50% of your Social Security income surpasses a certain level, then some Social Security benefits become taxable. Social Security benefits start to be taxed at provisional income levels of $32,000 for joint filers and $25,000 for single filers.10

Lastly, should you make 13 mortgage payments this year? If your house is underwater, this makes no sense – and you could argue that those dollars might be better off invested or put in your emergency fund. Those factors aside, however, there may be some merit to making a January 2018 mortgage payment in December 2017. If you have a fixed-rate loan, a lump-sum payment can reduce the principal and the total interest paid on it by that much more. Talk with a qualified financial or tax professional today. Vow to focus on being healthy and wealthy in 2017.

— Barbie and Jim

Fun Facts About Easter

* The tallest chocolate Easter egg was made in Italy in 2011. At 10.39 meters in height and 7,200 kg in weight, it was taller than a giraffe and heavier than an elephant
* Americans buy more than 700 million marshmallow peeps during the Easter holiday, which makes Peeps the most popular non-chocolate Easter candy
* Americans consume over 16 million jellybeans on Easter, enough to circle the globe three times over
* 76% of people eat the ears on chocolate bunnies first