*This Publication Brought to You Courtesy of:*
**LAURENCE M. SOBIN, CLU®, ChFC®**
**Sobin Financial Group**
2100 Rachel Terrace, Suite 15
Pine Brook, NJ 07058-9329
Tel: (973) 276-9235
Fax: (973) 276-9234
Email: service@sobinfinancial.com
Web: www.sobinfinancial.com

- **Insurance** – Life, Disability, Long-Term Care, Health, Medicare Supplement
- **Planning for** – Retirement Income, Wealth Accumulation, College Education, Estates
- **Investments** – IRA's, Annuities, Mutual Funds, Professional Money Management*

An economic and investment update

THE FINANCIAL INSIDER

Securities and advisory services offered through Packerland Brokerage Services, Inc., an unaffiliated entity, Member FINRA & SIPC

**Volume XXXIII, Number V**

# Five Myths about Social Security: What You Need to Know

Many Americans have come to believe certain myths about Social Security benefits and may be misinformed on a range of important topics, such as who is actually eligible to receive benefits, how much they will receive when they apply for benefits, or whether Social Security will pay for their long-term care, to name a few. While the future of Social Security may be uncertain, it is essential to understand the facts about Social Security, particularly what your benefits are, and what they are not, so you can make informed decisions to help prepare for your future.

Let's explore the five biggest myths circulating today about Social Security to set the record straight.

1) **Everyone who has worked is entitled to receive Social Security benefits.** Unfortunately, this is a misconception that may come as a big surprise to many U.S. workers when planning to retire. The government pension offset (GPO) is a Federal law that reduces the spousal and survivor's benefits for most retirees who collect pensions from jobs that are not covered by Social Security. The following are affected by the GPO: state and/or local government agency employees not covered by Social Security; Federal employees who were hired before January 1, 1984; and teachers who work in state retirement system

*(Continued on page 2)*

# Insurance Protection for Life's Key Stages

Whether you are just starting your career, in your peak earning years, or enjoying retirement, your insurance protection needs may change over time. **Life cycle planning** helps identify insurance needs that are common to particular stages of life. This can help individuals and families examine their insurance requirements in order to make future plans.

## Starting Out

Between the ages of 25 and 35, many people are just starting out in life—getting married, establishing families, and building careers. During these years, the death of the primary breadwinner, or one partner in a dual-income couple, could seriously jeopardize a surviving spouse's or family's financial future. Young couples probably have not had time to accumulate significant assets. For those in

*(Continued on page 7)*

## Five Myths about Social Security: What You Need to Know

*(continued from page 1)*

districts not covered by Social Security. In addition, individuals who are convicted of a criminal offense are not eligible to receive benefits while imprisoned.

2) **Social Security benefits will fund my retirement.** Back in the mid-1930s, Social Security was originally designed to help the most vulnerable population hit hard during the Great Depression—older Americans who had no savings after a lifetime of work. Social Security benefits alone, however, were never intended to serve as the major component of a retirement plan. Benefits provide only a base level of income and are meant to supplement retirement funds from other sources, such as employer-sponsored defined benefit plans (e.g., company pensions) and/or defined contribution plans (e.g., 401(k)s), and personal savings.

3) **Only people who have worked are eligible for Social Security benefits.** Here is an abbreviated list of individuals who may not have worked under Social Security but are eligible to receive benefits:

- A spouse may be eligible for benefits despite *never having worked*, if he or she is at least age 62, and the husband or wife is a recipient of, or is eligible for, retirement or disability benefits.
- An unmarried child may be eligible to receive benefits under the following circumstances: if under age 18, or 18–19 years old if a full-time student (no higher than grade 12); *and* if a parent(s) who is disabled or retired is entitled to Social Security benefits, or after the death of a parent who has worked long enough under Social Security. A child may also be eligible if age 18 and older and disabled, with the onset of disability before the age of 22.
- A widow(er) of a person who worked long enough under Social Security can receive full benefits at full retirement age for survivors, or reduced benefits at age 60 or age 50, if disabled.

4) **Benefit amount is not affected by age.** This is one of the biggest misconceptions about Social Security benefits. Because the age at which you apply for your benefits *matters*, here are some key points to consider:

- **The Social Security "give-back."** If you apply for benefits at age 62 (the earliest age at which you can apply) or older, but are still under the **full retirement age** (65–67 depending on your birth year), not only will you receive reduced Social Security benefits, but if you are still working, you must "give back" $1 for every $2 earned above a certain amount ($15,120 in 2013). If you reach full retirement age, your benefits are reduced by $1 for each $3 earned over $40,080 (in 2013) in months prior to your full retirement age.
- **Benefits at full retirement age.** When you reach your full retirement age, there is no limit on your earnings, and Social Security benefits are not reduced. Keep in mind that each year you delay applying beyond your full retirement age up to age 70, your monthly benefit amount increases by 8%.
- **Maximum benefits.** It is important to note that the maximum benefit for a person who retires at full retirement age is $2,533 per month (in 2013). The benefit for a non-working spouse would be only 50% of that amount.

*(Continued on page 3)*

# Preserving Your Legacy with a Solid Estate Plan

Watching a house under construction offers a fascinating, learning experience. Each phase builds on the next, working up from the foundation to the floors, walls, and finally, the roof—until the building is safe from the elements and provides security for a family. Constructing an estate plan is a similar process. If you "construct" your estate on a solid foundation, according to a well-designed plan, it can securely "shelter" your loved ones for the future.

Just as all house styles do not suit all families, neither do all estate plans. A "one size fits all" approach to estate planning should be avoided. Your estate plan should be customized to fit *your* specific needs and those of your spouse, your family, and if applicable, your business.

A solid estate plan should, among other things, specify and provide for the distribution of your property after your death, provide for the care and financial security of your dependents, and include sufficient funds to help pay for final expenses and estate taxes. A major component of any estate plan is a strategy to minimize or reduce the estate tax burden.

*(Continued on page 5)*

## Five Myths about Social Security: What You Need to Know

*(continued from page 2)*

5) **Social Security pays for long-term care.** The reality is that you're on your own when it comes to funding your long-term care, if needed. Medicare, the government health insurance program for people age 65 and over, and for those under 65 with certain disabilities and chronic conditions, only covers short-term care. It may also cover some nursing home or assisted living costs, but only for "skilled care" that is deemed medically necessary for the duration of an illness, usually limited to 100 days following a three-day hospital stay.

When thinking about retirement, you may want to consider that Social Security benefits provide only a basic level of income. The age at which you choose to retire is a major factor in that equation, and there are other questions to ask yourself before making that important decision to retire, including: Will I have enough income to live on? What is my break-even point for benefits? Will I continue to work? Do I feel uncertain about the future of Social Security? Am I prepared to fund my long-term care in the future if I need it?

Be sure to consult a qualified financial professional to help you stay on track to meet your overall financial objectives for the future. For further information about Social Security, and to estimate your future benefits online, go to ssa.gov. $

# Retirement Plan Rollover Options for Non-Spouse Beneficiaries

If you participate in an employer-sponsored qualified retirement plan, such as a defined benefit plan, 401(k) plan, employee stock ownership plan (ESOP), 403(b) plan, or 457(b) plan, you may have chosen a beneficiary to receive your account balance in the event of your death. If you are married, the law requires that your spouse be named the primary beneficiary of your account, unless he or she waives that right in writing. However, if you are unmarried, or your spouse has waived his or her right, you may wish to name a parent, sibling, child, domestic partner, other relative, friend, or trust as the beneficiary. As of 2010, non-spouse beneficiaries of inherited retirement plan accounts are permitted to roll over these assets into individual retirement accounts (IRAs) on a tax-free basis.

The provision allowing rollovers by non-spouse beneficiaries was included in the Pension Protection Act of 2006 (PPA '06) and initially went into effect on January 1, 2007. Prior to this time, only the spouse of the deceased account owner was permitted to defer taxation on the account by rolling over the funds to an inherited IRA, while any non-spouse beneficiary was required to take a lump sum distribution from the account. Non-spouse beneficiaries were thereby obligated to pay taxes on the full amount received and to declare the income on their personal tax return, potentially creating a challenging tax situation. Starting in 2007, non-spouse beneficiaries were allowed to make the same tax-free rollovers as spouses.

However, under the PPA, tax-qualified employer-sponsored retirement plans were not required to offer direct rollovers to non-spouse beneficiaries. Consequently, many non-spouse beneficiaries did not have access to these tax-free rollovers, unless the plan sponsors had voluntarily chosen to provide the option.

Congress closed this gap in the Worker, Retiree and Employer Recovery Act of 2008 (WRERA), through a provision mandating employer-sponsored retirement plans to offer the rollover option to non-spouse beneficiaries in plan years beginning after December 31, 2009. The WRERA provision also stipulates that beneficiaries who do not opt for a direct rollover, and instead choose to take distributions in the form of a cash lump sum, will be subject to mandatory 20% income tax withholding rules. As a result of IRS Notice 2008-30, non-spouse beneficiaries may also choose to roll over retirement account funds into an inherited Roth IRA subject to taxation.

Under the rules, non-spouse beneficiaries are permitted to directly roll over funds inherited from employer-sponsored retirement plans into inherited IRAs. According to the IRS, retirement plan distributions to a non-spouse beneficiary are subject to many of the same rules that apply to other eligible rollover distributions. Retirement plan sponsors must offer a non-spouse beneficiary the option of making a direct rollover, or a trustee-to-trustee transfer, of eligible rollover distributions to an inherited IRA. This means the transfer is made from the retirement plan to the IRA, and not to the beneficiary.

Other restrictions apply. The rollover must be made to a new IRA, not one already owned by the non-spouse beneficiary, and the new IRA must bear the name of the deceased, not the beneficiary. The rollover must be completed by December 31 of the year following the account holder's death. In addition, beneficiaries are not permitted to make additional contributions to the inherited IRA.

*(Continued on page 5)*

## Retirement Plan Rollover Options for Non-Spouse Beneficiaries

*(continued from page 4)*

The beneficiary must have the same basis in the inherited IRA as the deceased account owner, and the beneficiary may not combine the basis in the inherited IRA with the basis in his or her own IRAs.

After the rollover has occurred, the beneficiary must begin receiving distributions under the beneficiary distribution rules. The beneficiary will not owe taxes on the inherited IRA assets until he or she starts to receive distributions.

These rule changes, which provide important options to non-spouse beneficiaries of employer-sponsored qualified retirement plan accounts, apply to all retirement plans as of 2010. For more information about your employer-sponsored retirement plan, consult the benefit plan administrator at your company. $

## Preserving Your Legacy with a Solid Estate Plan

*(continued from page 3)*

### Minimizing Estate Taxes

Many couples are familiar with the **unlimited marital deduction**, which allows the spouse who dies first to leave his or her estate to the surviving spouse free of estate taxes. However, a married couple with assets exceeding the unlimited marital deduction may face a sizeable estate tax liability.

This is because each individual's assets above the $5.25 million **applicable exclusion amount** are subject to estate taxes. Without a proper estate plan in place, the first spouse to die may be unable to use his or her respective applicable exclusion amount.

A number of estate planning techniques, including credit shelter provisions in a will and trusts could be used, depending on the circumstances, to take advantage of both spouses' applicable exclusion amounts. To illustrate this, let's consider the hypothetical case of Denny and Jane, whose combined assets total $10.5 million. Denny's estate is worth $6.5 million, while Jane's is worth $4 million. Due to the unlimited marital deduction, if Denny dies first (in 2013), his assets will automatically pass to Jane free of estate taxes.

Jane's estate will then be worth $10.5 million (Denny's $6.5 million plus her $4 million). However, at Jane's death (also in 2013), the maximum amount she may transfer to their surviving children free of estate taxes is $5.25 million (her applicable exclusion amount). The remaining amount of assets over the applicable exclusion amount will be subject to estate taxes, which can be as high as 40%. This tax can take a sizable chunk out of an estate, unwittingly making Uncle Sam a significant beneficiary.

However, if Denny had a properly structured trust (which must be established while he is still alive), he could place his entire $6.5 million estate into the trust. (This would require retitling his assets to be owned by the trust.) At his death, Denny's trust would be able to fully utilize his $5.25 million applicable exclusion amount, which would still be available to Jane for income and support and would ultimately pass to her children free of estate taxes.

Denny's remaining $1.25 million (his original $6.5 million estate minus the $5.25 million used to offset the applicable exclusion amount) would pass directly to Jane at his death. This would leave her with a total estate worth $5.25 million (her original $4 million plus the $1.25 million Denny left her). At Jane's death, her applicable exclusion amount will allow her to pass her entire estate to her surviving children free of estate taxes. In this case, proper planning can allow Denny and Jane to pass their entire combined estate of $10.5 million to their children free of Federal estate taxes.

This estate planning technique may enable a couple to use both of their applicable exclusion amounts, and is just one example of how a solid estate plan can help you and your family. Just as you would consult a contractor when building your house, it is important to consult your experienced legal, financial, and tax professionals to help ensure your estate plan is appropriate for your circumstances and will achieve your objectives. With a well-constructed estate plan, you can rest easier knowing you have done all you can to preserve your financial legacy. $

# Property Ownership Issues Facing Unmarried Couples

When it comes to owning property, unmarried couples face some unique financial and estate issues. For example, if one partner dies, property does not automatically pass to the surviving partner, as it would to a spouse. And, if one partner transfers property to the other partner, there could be tax consequences. Understanding these matters is the first step in protecting your property. Consider the following information concerning these three types of property: 1) income, 2) property with a deed of title, and 3) untitled possessions.

## Income

When you first enter a relationship, you have the sole right to your personal income. However, in many states, a spoken or implied agreement to share income with your partner may support his or her claims against you if you separate. This is the basis for many palimony suits. Without a written contract, you could spend a great deal of time and money contesting your rights in court.

## Property with a Deed of Title

Unmarried partners who share property with a deed of title such as real estate, bank accounts, vehicles, and securities may choose between two legal forms of ownership: **joint tenancy with right of survivorship** or **tenancy in common**.

**Joint Tenancy with Right of Survivorship.** When you own property as joint tenants, you share equal rights to the entire property. Unless you have divided the cost equally, it is wise to document how much you have each contributed. Otherwise, there is no proof if one partner paid more than the other. According to the law, you are both equal owners, and if the relationship ends, you could each receive half of the property. On the upside, because you don't own separate shares, creditors may find it difficult to claim joint property, although laws vary from state to state.

Most states recognize the right of survivorship, although some may require that it be stated explicitly in the title or deed. This means that, upon the death of one partner, the property would automatically pass to the surviving joint owner, thereby avoiding **probate**.

Joint tenancy is easy to establish. You simply state both names on the title or deed and note that ownership is by joint tenancy with right of survivorship. Both signatures are required to sell the property, which could create problems if the relationship ends or one partner becomes incapacitated without having named a **durable power of attorney**.

Of course, jointly owned property has trade-offs, as well. It may be subject to both estate and gift taxes. The entire value of the property is included in the estate of the first to die, unless records can prove the surviving partner contributed to the cost. In addition, any property one partner transfers to the other partner could be subject to gift taxes. Be cautious about adding your partner's name to an existing deed. Unless there has been a fair exchange of value, the Internal Revenue Service (IRS) may consider this a gift, and tax it accordingly.

**Tenancy in Common.** In most states, property purchased by two or more co-owners automatically creates a tenancy in common, unless the title or deed states otherwise. A tenancy in common allows you to own unequal shares of a piece of property. Because percentages are stated on the title or deed, property held this way might be an easier target for creditors, since a claim can be issued against a specific share of the property.

Tenancy in common allows you to give or sell your share to anyone at anytime without the cotenant's consent, although property transfers without a fair exchange of value may be subject to gift taxes. Unlike joint tenancies, tenancies in common are subject to the probate process when one owner dies.

## Untitled Possessions

Who gets the TV? Who gets the microwave? To avoid these questions, it's best to own personal possessions separately. Keep records of your receipts. If you do purchase items together, document who owns each item. Written records provide the best evidence of ownership, should the relationship end.

## Protect Yourself—Put It in Writing

Without laws to guide the division of your property, it is important to keep detailed records and put all agreements in writing. While you may feel ambivalent about broaching the issues of property ownership, taking these steps now can help avoid tax problems later and ensure fair disposition of your property in the event of separation or death. $

## Insurance Protection for Life's Key Stages

*(continued from page 1)*

this age group, **life insurance** can be used to help create an "instant estate." In the event of an unexpected death, a life insurance policy death benefit can provide funds to help cover a mortgage, pay for a child's college education, or maintain the family's standard of living.

### The Peak Earning Years

Between the ages of 35 and 55, a family's assets may increase, therefore changing their life insurance needs. At this point, individuals owning **term policies** may want to convert to **permanent insurance**, which offers the potential for tax-deferred cash accumulation. The cash value can be accessed through a policy loan, free of taxes or penalties up to the amount paid into the policy. The loan interest rate generally is comparable to traditional lending rates. However, it is important to note that policy loans and/or withdrawals will reduce the cash surrender value and may reduce the policy's death benefit. Taking a policy loan could have adverse tax consequences if the policy terminates before the insured's death.

Another concern during this period is protecting your ability to earn income. According to the Council for Disability Awareness (2013), a typical healthy female, age 35, has a 24% chance of becoming disabled for 3 months or longer during her career, and a 21% chance for a male. Further, just over 1 in 4 of today's 20-year-olds will become disabled before they retire. Since even one year of disability could easily wipe out many years of savings, you may want to consider **individual disability income insurance**. This type of insurance provides a benefit to replace a percentage of the insured's income, in the event of a qualifying disability.

To address disability concerns, some life insurance policies offer a rider called a **waiver of premium**, usually available at an additional cost. With this additional coverage, if the insured becomes disabled, the insurer picks up the cost of the premiums with no repayment required, and the insured's life insurance coverage is not affected.

### Nearing Retirement

As retirement approaches, you may want to prepare strategies to minimize potential estate taxes. Life insurance offers a practical and affordable means of creating liquidity at death to help pay estate taxes. One approach is to establish an **irrevocable life insurance trust (ILIT)**. When properly executed, the trust is used to purchase a life insurance policy in an amount at least equal to the projected estate taxes. The policy premiums are paid with gifts from the insured to the trust. At the insured's death, the trust provides tax-free funds to help cover the estate tax liability. To be involved in the estate planning process, you would need to work with an estate planning team, including tax and legal professionals.

### The Retirement Years

Upon retirement, new concerns may arise. Personal assets that have taken years to accumulate could be quickly depleted should an individual require long-term care in a skilled nursing home facility. Most people are unaware of the actual costs associated with long-term care. According to the American Association of Retired Persons (AARP), the national average for private nursing home care is $74,000 per year. Other long term health care statistics: $206 per day for a private room in a nursing home; $185 per day for a semi-private room; $3,185 per month for a one bedroom unit in an assisted living facility; and $60 per day for care in an adult day health care center.

Although Medicare generally begins at age 65, it does not cover extended long-term care services. Medicaid is the government program designed to help those in financial need. However, individuals must "spend down" their personal assets and meet the Federal poverty guidelines before qualifying for nursing home care under Medicaid.

**Long term care insurance (LTCI),** if *previously* purchased, may help cover extended care expenses, including at-home, assisted living facility or nursing home care. Long-term care insurance may also help preserve assets, while easing the financial and caregiving burden on family members.

### Back to the Future

An appropriate insurance protection plan can help you and your family throughout life's key stages. By understanding the concerns that are common at each life stage, you may be in a better position to anticipate future needs. $

# Wealth-Transfer Taxes Can Take a Toll on Small Businesses

Most business owners become wealthy the "old-fashioned" way—they work hard. But, suppose a business owner and his or her spouse were to die unexpectedly. Undoubtedly, they would hope their children or other family members involved in the business would reap the benefits of all their hard work.

Unfortunately for surviving family members who depend on the business for their livelihoods, their troubles may have just begun. Although estate planning concerns may arise for business owners from time to time, they are often relegated to the "back burner" due to the more pressing day-to-day demands of the business.

However, without prior planning, there may be no provisions in place to help pay estate taxes, which can be significant—as high as 40% for amounts over the **applicable exclusion amount** of $5.25 million in 2013. Without any plans in place, selling or liquidating the business may be required to raise the cash to help pay these taxes.

## Potential Safeguards

Under the current estate tax laws, there are several steps a business owner can take to help prevent his or her business from being liquidated to raise cash to help pay estate taxes.

One option is to *transfer* business ownership to family members using certain gifting or sales techniques. Your tax professional can provide guidance regarding your gift tax liabilities. Although relinquishing some control and becoming a minor stockholder is not easy, it can help reduce a business owner's assets and thus, possibly, minimize the tax bite. In addition, a business owner could establish a **trust** to help ensure the estate is passed on to his or her heirs, avoiding probate.

Another option is to *defer* estate taxes. Estate taxes are due within nine months. However, the Internal Revenue Service (IRS) allows qualifying closely held businesses to defer taxes and then pay in installments (with interest) over a period as long as 10 years. In this case, the estate must remain open until all estate taxes have been paid. Therefore, according to IRS records, very few businesses choose this option. Still, family-held businesses may wish to consider taking this step as a way to help avoid a likely drain on valuable assets and the possibility of a closely held ownership coming to an abrupt end.

## Benefits of Planning

One effective tool that estate planners often use to help fund estate taxes is life insurance. The business owner can establish an **irrevocable life insurance trust (ILIT)**, which purchases a life insurance policy on his or her life. The policy premiums can be funded by annual gifts made to the ILIT by the business owner, who can use his or her annual gift tax exclusion ($14,000 to each recipient for 2013) in accordance with rules pertaining to Crummey withdrawal powers (Crummey v. Comm, 397 F.2d 82 (9th Cir. 1968)).

Most business owners work long and hard to build their business and want to do all they can to help protect their heirs from a heavy estate tax burden, particularly if the company's continued operations may be in jeopardy. Therefore, it is important to develop a plan *before* the need arises.

Keep informed about any changes in estate tax laws and maintain a strategy that works for your business and your family. Be sure to consult with a team of qualified estate professionals, including your legal, tax, and financial professionals. While there are obvious up-front costs involved in establishing an estate plan, in the long run, business owners generally find that it is money well spent. $

**The information contained in this newsletter is for general use, and while we believe all information to be reliable and accurate, it is important to remember individual situations may be entirely different. The information provided is not written or intended as tax, legal, or financial advice and may not be relied on for purposes of avoiding any Federal tax penalties. Individuals are encouraged to seek advice from their own tax or legal counsel. Individuals involved in the estate planning process should work with an estate planning team, including their own personal legal or tax counsel. Neither the information presented nor any opinion expressed constitutes a representation by us or a solicitation of the purchase or sale of any securities. This newsletter is written and published by LIBERTY PUBLISHING, INC., BEVERLY, MA COPYRIGHT 2013.**