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 XXXV, 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 districts not covered by Social Security. In addition, individuals

(Continued on page 2)

Benefit Trade-Offs in Property Titling

A fairly common practice among married couples is the holding of most, if not all, of their property as **tenants by the entirety**. Quite often, couples are unaware of the alternative methods of titling, as well as some of the trade-offs involved in selecting a particular form of holding property.

There are four primary ways to hold property:

1) **In your own name.** Anyone may choose to own property in his or her own name. Owning property outright gives the owner complete control over the property, but such property is generally included in the owner's gross estate for estate tax purposes and usually has to pass through the **probate** process.

2) **As tenants in common.** This method allows two or more parties to own property together, with each owner maintaining the right to sell his or her interest without the consent of the other co-owner(s). Generally, such ownership interests must be bequeathed through a **will** and do not pass automatically to the co-owner(s) at death. Consequently, such property typically is subject to probate.

3) **As joint tenants.** Also called **joint tenancy with right of survivorship**, this form of ownership provides each "tenant" with an undivided interest in the entire property. An owner may not sell without the consent of the other

(Continued on page 8)

Five Myths about Social Security: What You Need to Know

(continued from page 1)

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 ($15,720 in 2015). If you reach full retirement age, your benefits are reduced by $1 for each $3 earned over $41,880 (in 2015) 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 $2,663 per month (in 2015). The benefit for a non-working spouse would be only 50% of that amount.

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 you have enough income to live on? What is the break-even point for benefits? Will you continue to work? Do you feel uncertain about the future of Social Security? Are you prepared to fund your long-term care in the future if you 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. $

Setting a Price for Buying or Selling a Business

In the overall U.S. business landscape, mergers, takeovers, and buyouts are occurring at a steady rate. If you were to place your business on the market would you know what it is worth? Setting the price is often the most important aspect of the transaction.

Many business owners tend to base their companies' worth on "sweat equity." However, that does not have much to do with market value. To learn the true value of your business, you need a more scientific approach, starting with a valuation method. The most common methods are the following:

1. **Comparables.** Value is determined by the ratio of sales price/earnings of recently sold companies (similar in nature to your own) multiplied either by your earnings, or by your revenues.
2. **Discounted cash flow.** Value is determined by your company's projected cash flows discounted back to the present at a rate that incorporates risk.

Other factors also come into play, such as company size, industry, customer base, growth potential, competitive positioning, product mix, technological capabilities, and management talent. It is also important to realize that a company's value will vary with different buyers. Some buyers identify synergies and are willing to pay a premium; others will try to undercut naïve sellers who do not know their own company's value.

So, how do you become more knowledgeable about your company's worth? Retain the services of a professional valuator—a qualified individual who is objective, understands the buyers in your market, and has years of appraisal experience.

The Important Role of Taxes

In all the excitement of buying or selling a business, it may be hard to focus on taxes, but they affect the real price of the business. So when trying to assess the *real* price of your business, look at the components that make up the real price, including:

- The type and quality of the consideration
- The timing of the payments
- The tax effect of the transaction.

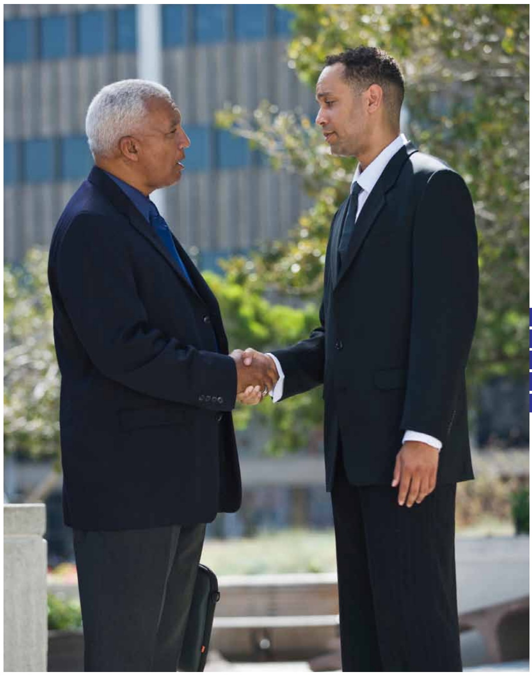
These components overlap, with the type and quality of the consideration and timing of payments greatly impacting the overall tax effect of the transaction. To determine the real price of your business, you will need to compare the tax effect of various reporting alternatives and a range of prices. Intangible assets, such as goodwill and intellectual property rights, both inside and outside the business (if any) will need to be identified. You should also consider other interrelated agreements, such as employment, consulting, or noncompete. In other words, hold off on negotiating until you know what you really have and what your possible options are.

Taxable or Not?

The majority of businesses are sold in taxable transactions. Nontaxable transactions include mergers and situations where the seller takes as consideration buyer stock or qualifying property in an exchange.

Although the general tax-planning rule is to avoid or postpone tax, there are some advantages of a taxable sale, such as:

- When the seller gets cash, concerns about the quality of buyer stock or the limitations inherent in selling buyer stock are nonexistent.
- The buyer does not have to contend with the seller as a shareholder and can get a stepped-up basis in the assets.
- The parties do not have to worry about the technical requirements of a tax-free or tax-deferred transaction.



(Continued on page 5)

Traditional IRAs—Forgotten, But Not Gone

With the number of financial products available in today's retirement savings marketplace, the traditional **Individual Retirement Account (IRA)** can get easily overlooked, despite the potential for tax deferral and income tax deduction for individuals under the age of 70½. Here are some categories of savers who may benefit from a traditional IRA retirement savings account:

Individuals without a retirement plan. Single taxpayers who are not part of an employer-sponsored retirement plan (e.g., **401(k) plan**) may benefit the most from using a traditional IRA. The same holds true for married taxpayers whereby neither spouse is a participant in an employer-sponsored retirement plan. Each individual can then contribute up to $5,500 in 2015 ($6,500 for individuals who are age 50 and older) annually to an IRA without meeting any income eligibility requirements, and may deduct their entire contribution for income tax purposes.

Some individuals covered under an employer-sponsored plan. Any individual who is a participant in an employer-sponsored retirement plan may contribute up to $5,500 in 2015 ($6,500 if age 50 and older) to an IRA, but whether or not that contribution can be *deducted* for income tax purposes depends on the taxpayer's **adjusted gross income (AGI)**. Deductions in 2015 phase out for single filers with **modified AGIs (MAGIs)** between $61,000 and $71,000, and for married couple joint filers with MAGIs between $98,000 and $118,000.

Working children. One commonly overlooked savings opportunity is for a working child to start making contributions to his or her own IRA. Many high school- and college-aged students work part-time during the summer, school vacations, and even the school year. In addition to instilling excellent saving habits, contributing to an IRA at an early age can give a child a significant head start in saving for retirement.

Individuals who are retiring or changing jobs. An IRA can allow an individual who is retiring to postpone taxation of his or her retirement plan proceeds. Likewise, an IRA can achieve similar tax benefits for individuals who are changing employers. A special type of traditional IRA—the **rollover IRA**—is used to accept the plan proceeds upon termination of employment. When properly executed, a rollover IRA avoids current income taxation, any unnecessary withholding of taxes by the former employer, and the 10% Federal income tax penalty for early withdrawals. It also allows the IRA owner to actively manage his or her IRA assets.

Non-spousal beneficiaries of an existing IRA. Since 2010, non-spousal 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.

What about the Roth IRA?

While income taxes are due when IRA distributions are taken, Roth IRA contributions are made with after-tax dollars and earnings accumulate tax free. In contrast to the traditional IRA, Roth IRAs have neither an age limit for contributions nor minimum distribution requirements. However, both traditional and Roth IRAs have a minimum age for distributions: 59½.

Does the Roth IRA eliminate the need for a traditional IRA? Well, that depends on the situation. It is possible for some taxpayers to be eligible for and contribute to both a Roth IRA and a traditional IRA. It is important to note, however, that the IRA contribution limit ($5,500 in 2015 or $6,500 for those age 50 and older) applies to the total of all IRAs that a person may hold in a given tax year.

Is the Traditional IRA an Option for You?

When determining if an IRA is appropriate for *your* situation, you need to evaluate the following: 1) whether you are eligible to make a deductible contribution; 2) if comparable savings opportunities exist elsewhere (e.g., your employer-sponsored 401(k) plan); and 3) the current and long-term tax benefits.

Traditional IRAs may have been overlooked as viable retirement savings vehicles in recent years, but may still serve a valuable purpose for your unique financial situation. Be sure to consult a qualified financial professional to help you determine your retirement savings opportunities, and formulate your savings strategy for the future. $

Setting a Price for Buying or Selling a Business

(continued from page 3)

A taxable sale can be structured as either an asset sale or a stock sale. In general, the seller wants a stock sale and the buyer wants an asset sale. See the chart below for a comparison of these two alternatives.

Timing of Payments

Sales are often structured as installment sales whereby the payments are extended over a number of years due to the buyer's lack of sufficient funds on hand. Installment sales are also useful since many small businesses are sold with an "earn-out" provision, in which the buyer pays a contingent amount over a number of years, based on the company's performance. Use of the installment method for tax purposes is advantageous for the buyer as it helps match the recognition of gain to when cash is actually received.

If you are considering a change, be sure to consult your tax professional to help determine the true value of your business, and your attorney to review the sale documents for accounting and tax considerations. $

Asset vs. Stock Sale

Asset Sale	Stock Sale
Seller: • Potential double taxation resulting in less net, after-tax proceeds. • Potential ordinary income, recapture, or higher tax rates on some assets. • Business can generally sell without minority shareholder consent.	**Seller:** • One level of taxation. • Capital gain treatment. • Minority shareholders may not want to sell.

A Mortgage—What's the "Point"?

Homebuyers must often choose between a *higher* mortgage rate with no points or a *lower* mortgage rate with one, two, or more points. To determine which is more cost-effective for you, calculate how much additional interest must be paid over the life of the loan in order to pay less money up front. A general rule is to equate each point with one-quarter percent interest rate. Thus, a 3.75 percent loan with two points costs approximately the same as a 4 percent loan with one point. However, the rule is only accurate for the first several years of the loan. The longer you plan to keep your home, the less effect points will have on the annual mortgage rate. Taxes must also be considered in any borrowing situation. While points for home purchase mortgages are typically fully deductible for the year in which they are paid, points on refinanced mortgages must be prorated over the life of the loan. $

Disability Income Insurance: Some Features Say It All

Prospective insurance buyers may often get confused about **disability income insurance** because the features and benefits can vary widely from one policy to another. Essentially, there are a few key elements that could make a difference when you choose a policy. If you are in the market for disability income insurance, here are some points you may want to consider:

Definition of "Total Disability." Does the policy define total disability as a condition during which you cannot perform the duties of your *own* occupation or *any* occupation? A policy that refers to your own occupation generally pays benefits if a sickness or injury prevents you from working in your occupation, even if you could work in a different job. A policy that refers to any occupation typically pays benefits only if you are unable to perform *any* job: your own job, a lower-paying job, or a job in a new occupation.

Duration of Benefits. Even if you have to choose a smaller benefit amount to keep the premiums affordable, look for coverage that protects you until age 65. Note that there are policies available that offer benefits only for a limited period (such as a maximum of two or five years), and the nature of your occupation may affect the duration of coverage.

Amount of Coverage. Policies usually set a limit on the percentage of income you can insure—usually 50% to 70% of your total gross earnings. If you have an employer-provided plan that offers only limited group coverage, you may want to supplement this coverage with individual disability income insurance.

Elimination Period. The waiting or "elimination" period is the amount of time you must be disabled before disability benefits begin to be paid. While a shorter waiting period requires a higher premium, a longer waiting period may mean you will have to rely on your savings until benefits begin. Keep in mind that the waiting period is determined when a policy is *issued*, not when you sustain the disability.

Taxation of Benefits. Benefits may be tax free if you pay the premiums using *after-tax* dollars. If you receive benefits under an employer-provided plan, they may be taxable if the premiums are paid with pre-tax dollars. Consult your tax professional for specific guidance on this matter.

Partial or "Residual" Coverage. After a serious disability, many people are able to return to work only on a part-time basis. Partial or "residual" benefits allow you to receive partial disability benefits, as well as your part-time income, until you fully recover. Without this feature, your benefits may stop as soon as you return to work, even if only part time.

Portable Coverage. Policies that allow you to carry your coverage from one job to another have an obvious advantage. Examples include coverage from a professional association providing portable coverage that is not tied to your place of employment, as well as any individual disability income policy that you might purchase independently.

It is important to determine the amount of coverage needed that best suits your situation before shopping for a policy. Review your insurance coverage and needs on a regular basis with a qualified professional to make sure that you are adequately protected. $

ID Theft: How Does It Happen?

In today's technologically advanced society, **identity theft** is a common and serious offense. The Identity Theft and Assumption Deterrence Act of 1998 defines identity theft as the following: when someone "*knowingly transfers or uses, without lawful authority, a means of identification of another person with the intent to commit, or to aid or abet, any unlawful activity that constitutes a violation of Federal law, or that constitutes a felony under any applicable State or local law.*"

The Internet and automated teller machines (ATMs), now widely used for a variety of financial transactions, such as shopping online and making cash withdrawals, are often cited as two contributing factors to identity theft.

If you're concerned about your personal information getting into the wrong hands, familiarize yourself with the following ways a thief might obtain information with the intent to steal money or commit other crimes:

Old-Fashioned Stealing. Years ago, if your handbag was stolen or if your wallet was pick-pocketed, you probably only worried about the loss of cash. Today, these losses could result in thousands of dollars in fraudulent purchases with credit cards. Thieves also steal personnel files and customer data from companies for Social Security numbers and other information.

"Dumpster Diving." If you dispose of trash in a dumpster, others may have access to it. Thieves might "dive in" and easily find the information they need, via old bank statements, credit card receipts and bills, which can wreak financial havoc in your name.

Intercepting Mail. Thieves regularly watch mailboxes, waiting for the arrival of the next credit card pre-approval letter. They can then call the credit card company posing as the intended recipient in order to open an account. While you cannot stop all solicitations, you can choose to "opt out" of receiving some of these letters. Call 1-888-5-OPTOUT to minimize unsolicited mail and phone calls.

"Shoulder Surfing." Shoulder surfing occurs when a thief lurks nearby while you provide personal information to another person or enter it into a machine. Typically, the thief peers over your shoulder and procures your information while you continue with your transaction.

Hacking. Many people rely on the Internet to manage their personal finances. While it can be a useful tool for banking or paying bills, the Internet can also be a haven for prospective identity thieves. Entering your personal information into an unsecured website may allow an experienced hacker to obtain that information.

Phishing: Some thieves also try to obtain personal information via email. They pretend to be financial institutions or companies and send spam or pop-up messages that ask you to reveal personal information.

Pretexting: In a similar way, thieves use false pretenses to trick you into revealing your personal information over the phone. They may pose as a representative from your bank, insurance company, or other service provider.

Skimming: After placing a special device on card processors and ATMs, thieves may be able to steal credit or debit card numbers when you process your card to make a purchase.

Protecting Yourself

If you become a victim of identity theft, it can be *financially*, as well as *emotionally*, devastating. With your personal information, a criminal might be able to open a credit card account and make fraudulent charges, or in more extreme cases, he or she may even assume your identity to get a job, file a tax return, and commit more serious crimes—all under *your* name. These are just some of the ways criminals may commit identity theft. Take steps *now* to protect yourself and your loved ones. For more details on avoiding identity theft, visit the Federal Trade Commission (FTC) online at www.ftc.gov. $

Benefit Trade-Offs in Property Titling

(continued from page 1)

co-owner(s). If one owner should die, the surviving owner(s) automatically inherits the decedent's interest (i.e., the property passes "by law" and does not go through probate). *Caveat*: A creditor may force the sale of such held property to satisfy the debts of only *one* owner.

4) **As tenants by the entirety.** This is a special form of joint tenancy solely for married couples with one significant difference: The property *cannot* be sold to satisfy the debts of one of the owners.

Benefit Trade-Offs

Each form of property ownership has specific implications, and, when assessing a method, the benefits gained must be balanced against the benefits lost.

Consider Simon and Ellen who have two college-aged children, Andrea and Jason. Life has been good to the couple, and they have built an estate worth $10.86 million, with all of their assets jointly held as tenants by the entirety. (For the sake of simplicity, we will not consider retirement plan assets, which cannot be held jointly.)

While on vacation, Simon and Ellen are involved in a fatal accident. Simon dies instantly; Ellen lives for four days and then dies. In this unfortunate set of circumstances, what are the estate tax implications for their jointly held $10.86 million estate?

At Simon's death, his interest in all jointly held property automatically passes to Ellen free of Federal estate taxes by virtue of the **unlimited marital deduction**. For the four intervening days that Ellen is alive, she is the sole owner of the previously joint $10.86 million estate. At her death, $5.43 million of the estate would be offset by her 2015 **applicable exclusion amount**. Because all property was jointly held, Simon's $5.43 million exclusion amount was lost. Failure to plan for Simon's exemption ultimately decreased the amount passing to Andrea and Jason.

"Bypass" to a Solution

Had Simon and Ellen "equalized" their estate (i.e., each owned $5.43 million outright), each could have set up a **bypass trust** with $5.43 million. In this example of nearly "simultaneous" deaths, the assets in Simon's bypass trust would pass to the children free of estate taxes (the $5.43 million exemption offsets the assets in the trust). Since Simon died first, Ellen's bypass trust effectively terminates. When Ellen dies four days later, the assets that were in her bypass trust would also pass to the children free of estate taxes because of her $5.43 million exemption. With equalized estates, $10.86 million (in 2015) can pass to the children free of Federal estate taxes.

Now the "trade-off" may be apparent. By owning their property as tenants by the entirety, Simon and Ellen achieved creditor protection (remember, for a married couple who title assets this way, a sale cannot be forced to satisfy one spouse's debts), but they also exposed their joint estate to the possibility of higher estate taxes. On the other hand, had they chosen to minimize estate taxes (Ellen and Simon each making use of their $5.43 million exemption), the property that each held outright (or as tenants in common) might have been exposed to claims by creditors.

Consult and Assess

The hypothetical example of Simon and Ellen demonstrates one of the dilemmas of property ownership: if you want maximum estate tax reduction, you usually must sacrifice maximum creditor protection, and vice versa. How important is creditor protection? It depends. Unfortunately, there are no easy answers in this area of estate planning. However, examining the trade-offs involved in using various forms of property ownership may be a good first step toward developing a strategy that most benefits your family. In addition, be sure to check with your attorney for applicable state laws concerning methods of property titling. $

D9019