Registered Investment Advisor Firm

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Answer Question Month

Q: How will the new regulation changes affect Social Security claiming strategies for current and future retirees?

A: New federal rules this year changed the strategy two-income couples may use to maximize Social Security spousal benefits. In the Bipartisan Budget Act of 2015 was the elimination of the file-and-suspend strategy.

Under the old rules, when a spouse reached full retirement age, typically 66, and married for at least a year, he or she could file for Social Security benefit eligibility. By doing so, the other spouse could start receiving spousal benefits equal to 50% of the applying spouse's retirement benefit. At the same time, the spouse who applied for eligibility could choose the option of suspending his or her own benefits, receiving an additional 8% growth in benefits for each year before reaching age 70.

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Under the new rules, which go into effect April 30, 2016, suspension of benefits will no longer be permitted.

Anyone who is currently collecting or was born on May 1, 1950, or earlier is not affected by the rule change They will also retain the right to request a lump sum payout of suspended benefits any time up to age 70 in lieu of earning delayed retirement credits.

Also affected are those age 62 and older by December 31, 2015, they can still claim spousal benefits when they turn 66 (assuming their spouse has either claimed Social Security or have filed and suspended before May 1, 2016). That will allow them to collect half their spouse's full retirement age amount for four years and switch to their own retirement benefits at 70 when they will be worth 132% of their full retirement age amount.

Anyone who turns 62 after December 31, 2015, will lose the right to claim spousal benefits only.

I know that these are very complex issues and I did not include all the possibilities as that would make this a very long newsletter. If you need more information, let me know.

Q: Will these rule changes save the Social Security system?

A: According to the Social Security Trustee report, the program would run out of money by 2033 and only be able to meet roughly 77% of its future obligations at that time. Although this will not save it, it will help towards making tough decisions to ensure that it will last well past 2033.

Q: Should I invest my IRA money in a MLP?

A: A MLP (Master Limited Partnership) typically transport, store, produce and refine energy and pass the bulk of their earnings to shareholders.

Under tax code, IRA's, both traditional and ROTH have tax free growth, but it comes with limits. When owners use IRA funds to invest in partnerships, they owe tax on certain annual income from the partnership exceeding $1,000 because of anti-abuse provisions. This levy is known as Unrelated Business Income Tax (UBIT), and its top rate of 39.6% can take effect at about $12,000 of taxable income.

Further, when the tax is due, the IRA Custodian or Trustee is responsible for obtaining a special tax ID number and then filing and signing IRS Form 990-T reporting that income.

The IRA owner is typically responsible for paying the tax. Sometimes it is months later when you receive a cordial letter from the IRS that you owe additional taxes.

Because of this complexity, experts often caution investors to avoid putting MLP's into IRA's.

FED Watch

It looks like the FED may finally make a move and raise rates. The Fed is widely seen increasing its benchmark overnight interest rate at its Dec. 15-16 policy meeting, and the debate is already shifting to the pace of rate hikes going forward.

Still on the edge of our seats, waiting.

Davis Investment Group

Davis Investment Group is a fee-based Registered Investment Advisor firm servicing the needs of clients across the United States.

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If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at: Bob@DavisInvestmentGroup.biz