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Chart: Young Adult Milestones, 1975 vs. 2016

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Working in Retirement: What You Need to Know

Planning on working during retirement? If so, you're not alone. Recent studies have consistently shown that a majority of retirees plan to work at least some period of time during their retirement years. Here are some points to consider.

Why work during retirement?

Obviously, if you work during retirement, you'll be earning money and relying less on your retirement savings, leaving more to grow for the future. You may also have access to affordable health care, as more and more employers offer this important benefit to part-time employees. But there are also non-economic reasons for working during retirement. Many retirees work for personal fulfillment, to stay mentally and physically active, to enjoy the social benefits of working, and to try their hand at something new.

What about my Social Security benefit?

Working may enable you to postpone claiming Social Security until a later date. In general, the later you begin receiving benefit payments, the greater your benefit will be. Whether delaying the start of Social Security benefits is the right decision for you depends on your personal circumstances.

One factor to consider is whether you want to continue working after you start receiving Social Security retirement benefits, because your earnings may affect the amount of your benefit payment.

If you've reached full retirement age (66 to 67, depending on when you were born), you don't need to worry about this — you can earn as much as you want without affecting your Social Security benefit. But if you haven't yet reached full retirement age, $1 in benefits will be withheld for every $2 you earn over the annual earnings limit ($16,920 in 2017). A higher earnings limit applies in the year you reach full retirement age. If you earn more than this higher limit ($44,880 in 2017), $1 in benefits will be withheld for every $3 you earn over that amount, until the month you reach full retirement age — then you'll get your full benefit no matter how much you earn. Yet another special rule applies in your first year of Social Security retirement — you'll get your full benefit for any month you earn less than one-twelfth of the annual earnings limit ($1,410 in 2017) and you don't perform substantial services in self-employment.

Not all income reduces your Social Security benefit. In general, Social Security only takes into account wages you've earned as an employee, net earnings from self-employment, and other types of work-related income such as bonuses, commissions, and fees. Pensions, annuities, IRA payments, and investment income won't reduce your benefit.

Even if some of your benefits are withheld prior to your full retirement age, you'll generally receive a higher monthly benefit starting at your full retirement age, because the Social Security Administration (SSA) will recalculate your benefit and give you credit for amounts that were withheld. If you continue to work, any new earnings may also increase your monthly benefit. The SSA reviews your earnings record every year to see if you had additional earnings that would increase your benefit.

One last important point to consider. In general, your Social Security benefit won't be subject to federal income tax if that's the only income you receive during the year. But if you work during retirement (or you receive any other taxable income or tax-exempt interest), a portion of your benefit may become taxable. IRS Publication 915 has a worksheet that can help you determine whether any part of your Social Security benefit is subject to income tax.

How will working affect my pension?

Some employers have adopted "phased retirement" programs that allow you to ease into retirement by working fewer hours, while also allowing you to receive all or part of your pension benefit. However, other employers require that you fully retire before you can receive your pension. And some plans even require that your pension benefit be suspended if you retire and then return to work for the same employer, even part-time. Check with your plan administrator.

Future of the Federal Estate Tax

The federal estate tax has been enacted or repealed a number of times over the years, while undergoing many changes. Tax reform, including possible repeal of the estate tax, is back in the spotlight once again.

[1] *2015 Field Guide to Estate Planning, Business Planning & Employee Benefits*

While no one can predict the future, the possibility of tax reform is once again in the spotlight. If it occurs, it may very well include repeal of the federal estate tax and related changes to the federal gift tax, the federal generation-skipping transfer (GST) tax, and the federal income tax basis rules.

History of the federal estate tax

In general, an estate tax is a tax on property a person owns at death. In one form or another, a federal estate tax has been enacted or repealed a number of times since 1797.[1]

Estate tax enacted	Estate tax repealed
1797	1802
1862	1872
1894	1902
1916	2010*
2011*	

**For 2010, the estate tax was repealed, but later retroactive legislation provided that an estate could elect to be subject to estate tax in return for a stepped-up (or stepped-down) income tax basis for most property. The estate tax was extended in 2011, with some changes.*

The estate tax has undergone many changes over the years, including the addition of a federal gift tax and a federal GST tax during modern times. A gift tax is a tax on gifts a person makes while alive. A GST tax is a tax on transfers to persons who are two or more generations younger than the transferor. In recent years, property owned at death has generally received an income tax basis stepped up (or down) to fair market value at death.

During the 2000s, the estate, gift, and GST tax rates were substantially reduced, and the gift and estate tax lifetime exclusion and the GST tax exemption were substantially increased. The estate tax and the GST tax, but not the gift tax, were scheduled for repeal in 2010 (although certain sunset provisions would bring them back unless Congress acted), but legislation extended the estate tax and the GST tax in 2011. (For 2010, the estate tax ended up being optional and the GST tax rate was 0%.) The gift and estate tax lifetime exclusion and the GST tax exemption were increased to $5,000,000 and indexed for inflation in later years. For 2013, the top estate, gift, and GST tax rate was increased to 40%, and the extension and modifications were made "permanent."

2017 Estate Planning Key Numbers	
Annual gift tax exclusion	$14,000
Gift tax and estate tax basic exclusion amount	$5,490,000
Noncitizen spouse annual gift tax exclusion	$149,000
Generation-skipping transfer (GST) tax exemption	$5,490,000
Top gift, estate, and GST tax rate	40%

Federal estate tax

Repeal of the estate tax seems possible once again. If repeal occurs, it could be immediate or gradual as during the 2000s. Would it be subject to a sunset provision, so that the estate tax would return at a later time? All of this may depend on congressional rules on the legislative process, other legislative priorities, and the effect the legislation would have on the budget and the national debt.

Federal gift tax

If the estate tax is repealed, the gift tax may also be repealed. However, it is possible that the gift tax would be retained as a backstop to the income tax (as in 2010). To some extent, the gift tax reduces the ability of individuals to transfer property back and forth in order to reduce or avoid income taxes.

Federal GST tax

If the estate tax is repealed, the GST tax would probably be repealed (as in 2010). If the gift tax is not repealed, it is possible that the lifetime GST tax provisions would be retained, but the GST tax provisions at death repealed.

Federal income tax basis

If the estate tax is repealed, it is possible that the general income tax basis step-up (or step-down) to fair market value at death would be changed to a carryover basis (i.e., the decedent's basis before death carries over to the person who inherits the property). In 2010, a modified carryover basis (a limited amount of property could receive a stepped-up basis) applied unless the estate elected to be subject to estate tax. It is also possible that a Canadian-style capital gain tax at death could be adopted in return for a stepped-up basis for the property.

Setting Up a SIMPLE IRA Plan: It's Simple!

You can also set up a 401(k) plan as a SIMPLE plan. However, there's little advantage in doing so, because you'll have the same lower contribution limits as a SIMPLE IRA plan while giving up the ease of administration that makes SIMPLE plans attractive in the first place.

** The 3% of pay match may be reduced to as little as 1% in any two of five years.*

Looking for a retirement plan for your employees that's easy and inexpensive to administer? Well, there may be a simple answer: the Savings Incentive Match Plan for Employees of Small Employers, better known as the SIMPLE IRA plan. A SIMPLE IRA plan lets your employees defer up to $12,500 in 2017 ($15,500 if age 50 or older). You promise to match employee contributions dollar for dollar up to 3% of pay,* or to make a "nonelective" contribution for all eligible employees, whether or not they contribute, equal to 2% of pay. (No more than $270,000 of pay can be taken into account in 2017.)

Your employees are eligible if they've earned at least $5,000 during any two preceding years (whether consecutive or not) and are expected to earn at least $5,000 in the current year. Eligibility does not depend on the employee's age or how many hours the employee works for you.

You can adopt a SIMPLE IRA plan for 2017 only if you had 100 or fewer employees in 2016 (excluding employees who earned less than $5,000) and you don't contribute to any other retirement plan. If your business qualifies, follow these three simple steps to set up your SIMPLE IRA plan. (You have until October 1 to set up a new SIMPLE IRA plan for 2017.)

Step 1: Adopt a written plan document

You can set up a SIMPLE IRA plan by completing either a pre-approved document provided by a financial institution (for example, a mutual fund company, insurance company, or bank) or an IRS model document (either Form 5305-SIMPLE or Form 5304-SIMPLE).

Form 5305-SIMPLE lets you specify the "designated financial institution" that will both act as your plan's trustee/custodian and initially receive all plan contributions. Form 5304-SIMPLE, on the other hand, lets each eligible employee select the financial institution that will serve as trustee/custodian and receive all plan contributions.

Step 2: Provide information

You must provide your eligible employees with the following information before the beginning of each election period:

- An explanation of the employees' ability to make or change salary reduction elections
- Whether you'll make matching contributions or nonelective contributions for the coming year
- A summary description of the plan
- A notice that employees can transfer their account balances to an IRA provider of their choice without cost or penalty, if you use a designated financial institution

The election period is generally the 60-day period prior to the start of each calendar year (November 2 to December 31). However, the election period will be different if you set up a SIMPLE plan mid-year, or if an employee first becomes eligible after the 60-day period ends. Forms 5304 and 5305 contain most of the forms you'll need to comply with these notice requirements.

Step 3: Set up employee accounts

A SIMPLE IRA account must be set up by or for each eligible employee, and all contributions to the plan must go into these accounts. Employees must make important decisions about investing their SIMPLE IRA retirement dollars based on the investment options available at the financial institution that holds their funds.

Key differences between a SIMPLE IRA plan and a traditional 401(k) plan

	SIMPLE IRA	401(k) Plan
Employee deferral limits	$12,500, $15,500 if 50 or older	$18,000, $24,000 if 50 or older
Roth contributions?	No	Yes
Complex ERISA/tax compliance?	No	Generally yes
Employer contributions required?	Yes	Generally no
Additional employer contributions allowed?	No	Yes, total contribution (including deferrals) up to $54,000 or more possible
Loans?	No	Yes
Creditor protection?	Yes in bankruptcy; unclear outside bankruptcy	Generally yes, inside and outside bankruptcy
Withdrawals	Unrestricted	Generally restricted
Early withdrawal penalty	25% first two years of participation, then 10%	10%

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How do the economic milestones of young adults today compare with prior generations?

If you're the parent of a young adult who is still living at home, you might be wondering whether this situation is commonplace. According to a recent U.S. Census Bureau study, it is: One in three young people (ages 18 to 34) lived in their parents' home in 2015.

The Census Bureau study examines how the economic and demographic characteristics of young adults have changed from 1975 to 2016. In 1975, for example, less than one-fourth of young adults (ages 25 to 34) had a college degree. Young adults in 2016 are better educated — more than one-third hold a college degree (or higher) — but student loan debt has made it more difficult for them to obtain financial stability, let alone establish homes of their own in their 20s.

More young adults in 2016 had full-time jobs than their counterparts did in 1975. In particular, young women ages 25 to 34 are experiencing economic gains, with more than two-thirds in the workforce compared with less than half in 1975. Young women today are also earning more money than they did in 1975 — their median incomes have grown from nearly $23,000 in 1975 to more than $29,000 in 2016 (in 2015 dollars).

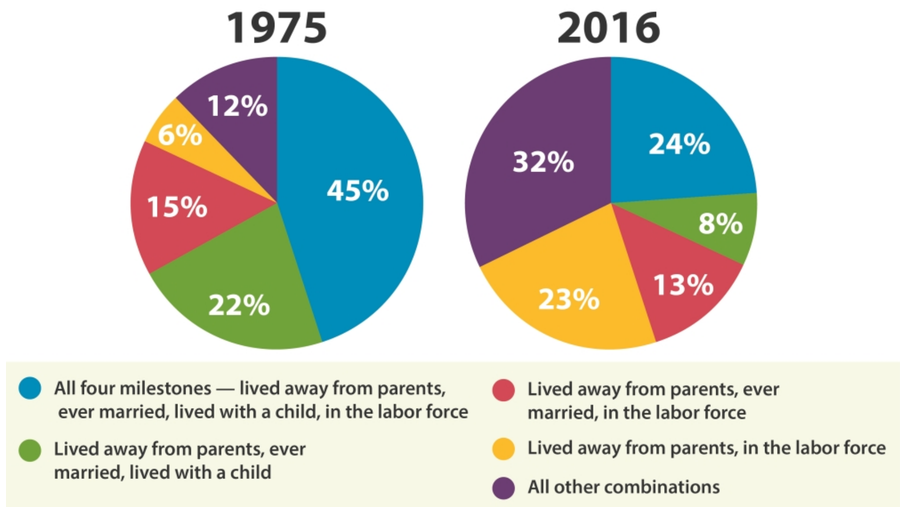
Despite the educational and economic advances that young adults have made over the last 40 years, many are postponing traditional adult milestones. In fact, a majority of young adults are not living independently of their parents. Of the 8.4 million 25- to 34-year-olds still living at home, one in four are not attending school or working. It's important to note, though, that this could be because they are caring for a family member or have health issues or a disability.

Compared to 40 years ago, the timing and accomplishment of milestones on the path to adulthood are much more diverse and complex today. To view the full report, visit census.gov.

Source: U.S. Census Bureau, "The Changing Economics and Demographics of Young Adulthood: 1975-2016," April 2017

Chart: Young Adult Milestones, 1975 vs. 2016

The following pie charts compare four common milestones of adulthood — getting married, having children, working, and living independently — achieved by young adults ages 25 to 34 in 1975 and 2016. The data indicates that the experiences of young people today are more diverse, with fewer accomplishing all four milestones in young adulthood. Instead, many young adults are delaying or forgoing some experiences (marrying and having children) in favor of others (living independently and gaining work experience).



Source: U.S. Census Bureau, "The Changing Economics and Demographics of Young Adulthood: 1975-2016," April 2017

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What Does It Mean When Your Portfolio is Up 10%?

You receive portfolio performance reports every three months—a form of transparency that financial planning professionals introduced at a time when the typical brokerage statement was impossible to decipher. But it might surprise you to know that most professionals think there is actually little value to any quarterly performance information, other than to reassure you that you actually do own a diversified portfolio of investments. It's very difficult to know if you're staying abreast of the market, and for most of us, that's not really relevant anyway.

Why?

The only way to know if your investments are "beating the market" is to compare their performance to "the market," which is not easy. You can compare your return to the Dow Jones Industrial Average, but that index represents only 30 stocks, all of them large companies. Most peoples' investment portfolios include a much larger variety of assets: U.S. stocks and bonds, foreign stocks and bonds, both including stocks of large companies (large cap), companies that are medium-sized (midcap) and smaller firms (small cap). There may be stocks from companies in emerging market countries like Sri Lanka and Mexico. There may be real estate investments in the form of REITs and investment exposure to shifting commodities prices, like wheat, gold, oil and pork bellies.

In order to know for sure that your particular batch of investments outperformed or underperformed "the market," you would need to assemble a "benchmark" portfolio made up of index funds in each of these asset categories, in the exact mix that is in your own portfolio. Even if you could do that precisely, daily, weekly and monthly market movements would distort the original portfolio mix by causing some of your investments to gain value (and become larger pieces of the overall mix) and others to lose value (and become smaller pieces), and those movements could be different from the movements inside the benchmark. After a month, your portfolio would be less comparable to the benchmark you so painstakingly created.

Many professionals believe that there are several keys to evaluating portfolio performance in a meaningful way—and the result is very different from comparing your returns with the Dow's.

1) Take a long view. What your investments did last month or last quarter is purely the result of random movements in the market, what professionals call "white noise." But you might be surprised to know that even one-year returns fall into the "white noise" category. It's better to look at your performance over five years or more; better still to evaluate through a full market cycle, from, say, the start of a bull market to the start of a new bull market. However, you should remember that there are no clear markers on the roadside that say: *"This line marks the start of a new bull market."*

2) Compare your performance to your goals. Your financial plan indicated that your investments needed to generate (let's suppose) 5% returns above inflation in order for you to have a great chance of affording a long, comfortable retirement. If that's your goal, then chances are, your portfolio is not designed to beat the market; it represents a best guess as to what investments have the best chance of achieving that target return, through all the inevitable market ups and downs between now and your retirement date. If your returns are negative over three to five years, that means you're probably falling behind on your goals—and you might be taking too much risk in your portfolio.

3) Recognize that some of your investments will go down even in strong bull markets. The concept of diversification means that some of your holdings will inevitably move in opposite directions, return-wise, from others. Ideally, the overall trend will be upward—the investments are participating in the growth of the global economy, but not at the same rate and with a variety of setbacks along the way. If you see some negative returns, understand that those are the investments you're counting on to give you positive returns if/when other parts of your investment mix are suddenly, probably unexpectedly, turning downward.

That doesn't mean you shouldn't look at your portfolio statement when it comes out. Make sure the investments listed are what you expected them to be, and let your eye drift toward the longer time periods. Notice which investments rose the most and which were down and you'll have an indication of the overall economic climate. And if your overall portfolio beat the Dow this quarter, or over longer periods of time, well, that probably only represents white noise.

Source:

- http://www.marketwatch.com/story/how-couples-can-make-smart-retirement-decisions-together-2016-03-28

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Vanishing Equities

A recent Wall Street Journal article, citing a study by the Center for Research in Security Prices, tells us something remarkable about the times we are investing in: the number of stocks on the U.S. market has quietly diminished by more than half over the last 20 years. In November 1997, investors could choose from 7,355 U.S. stocks. Today, there are fewer than 3,600.

Why haven't you noticed this? Most of the decline has come from vanishing companies ranging from small to microcap—the sort of names you probably haven't heard of. Small stocks have diminished from more than 2,500 in 1997 to fewer than 1,200 today. Microcap companies that are even smaller numbered nearly 4,000 in 1997, compared to 1,900 today. Some went out of business, while others were gobbled up by private equity firms. Meanwhile, the ecology has changed; instead of new companies going public to replace those that have retired from the market, venture capital firms are allowing younger ventures to stay private for longer.

The article talks about several possible consequences. Since the surviving companies tend to be larger and better known, it becomes harder for professional asset managers to get an information edge or find small undiscovered gems that are undervalued. The declining roster of stocks may also mean that a long era of higher returns from small cap stocks compared to larger firms could be coming to an end. But the truth is that nobody knows what the investment consequences will be from the quiet shrinkage of investment options.

Source:

- https://www.wsj.com/articles/stock-picking-is-dying-because-there-are-no-more-stocks-to-pick-1498240513

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The Keys to Connecting

How well do you connect with other people in informal social occasions? If you tend to be shy or awkward at cocktail parties or networking events, it can be bad for your career and rob you of connection with others who might become friends or mentors.

Fortunately, there's a solution. Researchers have shown that there's a fairly reliable way to make small talk and connect with others. Best of all, anyone can master it.

The solution is: whenever you encounter others who you think might be interesting, focus on the other person rather than yourself. Many people make the mistake of trying to entertain instead of connecting, on the assumption that your personality or your wit is the value you bring to parties. But actually, what most people crave is an audience.

The key here is to ask questions that will prompt the other person to share something about him/herself. A recent online article in Medium offers 49 questions you can pose to someone you meet for the first time, although some of them might not be ideal for the shy or easily embarrassed. (*"Are you scared of death?"* doesn't sound like the ideal ice-breaker for many of us.) But others are creative and have the potential to lead to a fun conversation. Among the best:

What would you be most likely to volunteer for?

What are you looking forward to in the next few weeks?

Do you like to cook? What's the last thing you cooked?

If you didn't live here, where else would you choose?

When do you know you've reached adulthood? What makes an adult an adult?

Do you know your Myers-Briggs personality type? What are your thoughts on personality assessments?

What kind of music do you listen to when you need to amp yourself up and get things done? How about when you want to mellow out?

What excites you these days?

When was the last time you laughed really hard? What were you laughing at—or whom were you laughing with?

What are three words your friends would use to describe you?

What makes you feel appreciated and loved?

What do you think makes a good friend?

Do you like to cook? What's the last thing you cooked? Or was cooked for you?

If you didn't live here, where else would you choose?

But the questions themselves are not the entire key; it's also important to ask follow-up questions. Many times, in conversation, we wait impatiently for another person to finish talking so we can interject our own answer. If you continue to probe for the other person's view, rather than jumping in to share your own, people will respond more favorably and open up to a deeper conversation. Don't make the conversation too weird by turning it into an interrogation; make sure you insert thoughtful followup questions, which make the conversation more fun for the other party.

And because everyone has access to information and insights that we've never encountered, think of the things you'll learn that you might have otherwise missed at social gatherings. Don't worry about impressing the other person. You just have to listen.

Sources:

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Navigating the Tight Job Market of Our Automated Future

You've read that robots, automation and artificial intelligence are likely to displace millions of workers in the coming ten to 20 years. So if you or someone you care about wants to stay ahead of that curve, what skills would you need to make you an ideal worker in that automated future?

Recently, the Pew Research Center conducted a survey of technologists, scholars, strategic thinkers and education leaders, asking them for insight into the future of the workplace. 70% said they envisioned new educational and training programs that would quickly and flexibly identify new skills that were needed in the marketplace and adapt over and over again to provide training in whatever is needed. So instead of people having to anticipate what the job market will need (foreseeing the future is never an easy task), they will be able to seek out training facilities that are connected with corporations around the world who are sending them real-time data on their employment needs. Some of the respondents imagine that these training facilities will replace our current system of stodgy colleges and universities, which are very slow to adapt to changing needs in the workplace.

One interesting theme that popped up again and again was training that would teach people how to become lifelong learners—so they could reenter these flexible, ever-adjusting jobs programs again and again through a multi-career path. Another theme was the emergence of alternative credentialing systems that would vouch for the skills that people have acquired through their training.

Some respondents chose to focus their responses on figuring out the human talents that would be hardest for machines and automation to duplicate. Among the most popular talents cited: creativity, collaborative activity, abstract and systems thinking, complex communication and the ability to thrive in creative environments. Others: the ability to effectively network, manage public relations, display intercultural sensitivity and marketing, which all require social and emotional intelligence.

Roughly a third of the respondents doubted that training platforms would emerge fast enough to help today's workers, and some doubted that, even if we did have retraining facilities in place, today's workers would recognize the need for retraining, and instead simply demand their old jobs back.

Source:

- http://www.pewinternet.org/2017/05/03/the-future-of-jobs-and-jobs-training/?utm_content=buffer6d9e4&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer