

Financial Focus

A Publication of Fortune Wealth Management, LLC

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.

Fortune Wealth Management, LLC

Sonja White, CLU®, ChFC®
President

12222 Merit Drive
Suite 1050

Dallas, TX 75251

972-716-8002 x224

800-288-6845

sonja@fortunewealthmanagement.com

www.fortunewealthmanagement.com

Fortune Wealth Management, LLC (FWM) is registered with the Securities and Exchange Commission as a Registered Investment Advisor. FWM takes a team approach to investment management services. Our wealth of knowledge, experience and support allows us to provide uniquely personal investment management that reflects the dynamic nature of your life and honors the significance of your dreams.

Advisory Services offered through FWM. Securities offered through Silver Oak Securities (SOS). Member FINRA/SIPC. FWM is not an affiliate of SOS.

This material is for informational purposes only, and should not be construed as an offer to sell or solicitation of an offer to buy any security. SOS makes no representation or warranty relating to the information presented. The information in this material is not intended to be personalized investment advice and should not be solely relied on for making investment decisions.

August 2017

Future of the Federal Estate Tax

Kickstart Your College Fund with a 529 Plan

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



FORTUNE
WEALTH MANAGEMENT LLC



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

Future of the Federal Estate Tax

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.





Assets hit \$266 billion mark

As of March 2017, assets in 529 college savings plans reached \$266 billion, spread over 12.2 million accounts.

Source: Strategic Insight, 1Q 2017 529 Data Highlights

Before investing in a 529 plan, you should consider the investment objectives, risks, charges, and expenses, which are available in the issuer's official statement and should be read carefully. The official disclosure statements and applicable prospectuses — which contain this and other information about the investment options, underlying investments, and investment company — can be obtained by contacting your financial professional. Also consider whether your state offers a 529 plan that provides residents with favorable state tax benefits. As with other investments, there are generally fees and expenses associated with a 529 plan.

Kickstart Your College Fund with a 529 Plan

If you're looking to save money for college, one option to consider is a 529 college savings plan. Created over 20 years ago and named after the section of the tax code that governs them, 529 plans offer a unique combination of features that have made them the 401(k)s of the college savings world.

How do 529 plans work?

529 college savings plans are individual investment-type accounts specifically made for college savings. People at all income levels are eligible. Plans are offered by individual states (you can join any state's plan) but managed by financial institutions designated by each state.

To open an account, you select a plan and fill out an application, where you will name an account owner and beneficiary (there can be only one of each), choose your investment options, and set up any automatic contributions. You are then ready to go. It's common to open an account with your own state's 529 plan, but there may be reasons to consider another state's plan; for example, the reputation of the financial institution managing the plan, the plan's investment options, historical investment performance, fees, customer service, website usability, and so on.

A plan's investment options typically consist of portfolios of various mutual funds that vary from conservative to aggressive in their level of risk. Depending on the market performance of the options you've chosen, your account will either gain or lose money, and there is the risk that the investments will not perform well enough to cover college costs as anticipated.

Benefits

So why bother going to the trouble of opening a 529 account when you could choose your own mutual funds (or other investments) in a non-529 account?

Federal tax benefits: Contributions to a 529 plan accumulate tax deferred, which means no income tax is due on any capital gains or dividends earned along the way. Later, earnings are completely tax-free when a withdrawal is used to pay the beneficiary's college expenses — a benefit that could be significant depending on how your investment options perform. States generally follow this federal tax treatment and may offer an income tax deduction for contributions. That's why it's important to know what 529 tax benefits your state offers and whether those benefits are contingent on joining the in-state 529 plan.

Contributions: You can contribute a lot to a 529 plan — lifetime contribution limits are typically \$300,000 and up. Compare this to the small

\$2,000 annual limit allowed by Coverdell Education Savings Accounts. In addition, 529 plans offer a unique lump-sum gifting feature that some may find particularly compelling: Individuals can contribute a lump-sum amount of up to five years' worth of the \$14,000 annual gift tax exclusion — a total of \$70,000 in 2017 — and avoid gift tax if they make a special election on their tax return and avoid making any other gifts to that beneficiary during the five-year period. Married couples, such as grandparents who want to contribute to their grandchild's college fund, can make a joint lump-sum gift up to \$140,000 that is tax-free.

College account on autopilot: For college savers who are too busy or inexperienced to choose their own investments or change their asset allocation over time, a 529 college savings plan offers professional money management. And by having a designated account for college savings, you segregate those funds and possibly lessen the temptation to dip into them for a non-college purpose — a scenario that may be more likely if you are using a general savings account to save for college. Finally, by setting up automatic monthly contributions to your 529 account, you can put your savings effort on autopilot.

Tradeoffs

Non-college use of funds: The federal tax benefits of 529 plans can be great if you use the funds for college. If you don't, then the earnings portion of any withdrawal is subject to federal income tax at your rate *and* a 10% federal penalty.

Changing investment options: With a 529 plan, you're limited to the investment options offered by the plan. Plans generally offer a range of static and age-based portfolios with different levels of risk, fees, and investment goals. (Age-based portfolios generally have a "glide path" where the underlying investments automatically become more conservative as the beneficiary approaches college age.) If you're unhappy with the performance of the options you've chosen, under federal law you can change the investment options for your *future* contributions at any time, but you can change the options for your *existing* contributions only twice per calendar year. This rule can make it difficult to respond to changing market conditions. However, also under federal law, once every 12 months you can roll over your existing 529 plan account to a new 529 plan without having to change the beneficiary, which gives you another option if you're unhappy with your current plan's investment options or returns.



**Fortune Wealth Management,
LLC**

Sonja White, CLU®, ChFC®
12222 Merit Drive
Suite 1050
Dallas, TX 75251



FORTUNE
WEALTH MANAGEMENT LLC

This information was developed by Forefield, Inc. an independent third party. It is general in nature, is not a complete statement of all information necessary for making an investment decision, and is not a recommendation or a solicitation to buy or sell any security. Investments and strategies mentioned may not be suitable for all investors. Past performance may not be indicative of future results.



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