



## Berman Capital Management & Research

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### March 2015

Key Numbers for 2015

No Matter What Your Age, Your Social Security Statement Matters

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Should I be worried about a Federal Reserve interest rate hike?

# Berman Capital Management News

## Financial & Investment Insights

### Key Numbers for 2015



Every year, the Internal Revenue Service (IRS) announces cost-of-living adjustments that affect contribution limits for retirement plans, thresholds for deductions and credits, and

standard deduction and personal exemption amounts. Here are a few of the key adjustments for 2015.

#### Retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$18,000 in compensation in 2015 (up from \$17,500 in 2014); employees age 50 and older can defer up to an additional \$6,000 in 2015 (up from \$5,500 in 2014)
- Employees participating in a SIMPLE retirement plan can defer up to \$12,500 in 2015 (up from \$12,000 in 2014), and employees age 50 and older will be able to defer up to an additional \$3,000 in 2015 (up from \$2,500 in 2014)

#### IRAs

The limit on annual contributions to an IRA remains unchanged at \$5,500 in 2015, with individuals age 50 and older able to contribute an additional \$1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

	2014	2015
<b>Single / head of household (HOH)</b>	\$60,000 - \$70,000	\$61,000 - \$71,000
<b>Married filing jointly (MFJ)</b>	\$96,000 - \$116,000	\$98,000 - \$118,000
<b>Married filing separately (MFS)</b>	\$0 - \$10,000	\$0 - \$10,000

**Note:** The 2015 phaseout range is \$183,000 - \$193,000 when the individual making the IRA contribution is not covered by a workplace retirement plan, but is filing jointly with a spouse who is covered.

The modified AGI phaseout ranges for individuals making contributions to a Roth IRA are:

	2014	2015
<b>Single / HOH</b>	\$114,000 - \$129,000	\$116,000 - \$131,000
<b>MFJ</b>	\$181,000 - \$191,000	\$183,000 - \$193,000
<b>MFS</b>	\$0 - \$10,000	\$0 - \$10,000

#### Estate and gift tax

- The annual gift tax exclusion remains \$14,000
- The gift and estate tax basic exclusion amount for 2015 is \$5,430,000, up from \$5,340,000 in 2014

#### Personal exemption

The personal exemption amount has increased to \$4,000 (up from \$3,950 in 2014). For 2015, personal exemptions begin to phase out once AGI exceeds \$258,250 (Single), \$309,900 (MFJ), \$284,050 (HOH), or \$154,950 (MFS).

**Note:** These same AGI thresholds apply in determining if itemized deductions may be limited. The corresponding 2014 threshold amounts were \$254,200 (single), \$305,050 (MFJ), \$279,650 (HOH), and \$152,525 (MFS).

#### Standard deduction

The standard deduction amounts have been adjusted as follows:

	2014	2015
<b>Single</b>	\$6,200	\$6,300
<b>HOH</b>	\$9,100	\$9,250
<b>MFJ</b>	\$12,400	\$12,600
<b>MFS</b>	\$6,200	\$6,300

**Note:** The 2015 additional standard deduction amount (age 65 or older, or blind) is \$1,550 if filing as single or HOH (unchanged from 2014) or \$1,250 (up from \$1,200 in 2014) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.





*Don't assume that Social Security is just for retirees; it's much more than a retirement program. According to the SSA, approximately 21% of individuals currently receiving benefits are younger than retirement age who are receiving disability or survivor benefits.\* Get in the habit of checking your Social Security Statement every year to find out what role Social Security might play in your financial future.*

*\*Source: Fast Facts & Figures About Social Security, 2014*

## No Matter What Your Age, Your Social Security Statement Matters

Fifteen years ago, the Social Security Administration (SSA) launched the Social Security Statement, a tool to help Americans understand the features and benefits that Social Security offers. Since then, millions of Americans have reviewed their personalized statements to see a detailed record of their earnings, as well as estimates of retirement, survivor, and disability benefits based on those earnings. Here's how to get a copy of your statement, and why it deserves more than just a quick glance, even if you're years away from retirement.

### How do you get your statement?

In September 2014, the SSA began mailing Social Security Statements to most workers every five years. Workers attaining ages 25, 30, 35, 40, 45, 50, 55, and 60 who are not receiving Social Security benefits and are not registered for an online account will receive a statement in the mail about three months before their next birthday. Workers older than age 60 will receive a statement every year.

But why wait? A more convenient way to view your Social Security Statement is online. First, visit [socialsecurity.gov](http://socialsecurity.gov) to sign up for a personal my Social Security account (you must be 18 or older to sign up online). Once you have an account, you can view your Social Security Statement anytime you want, as often as you want.

### Check your estimated benefits

Your Social Security Statement gives you information about retirement, disability, and survivor benefits. It tells you whether you've earned enough credits to qualify for these benefits and, if you qualify, how much you can expect to receive. As each Social Security Statement notes, the amounts listed are only estimates based on your average earnings in the past and a projection of future earnings. Actual benefits you receive may be different if your earnings increase or decrease in the future. Amounts may also be affected by cost-of-living increases (estimates are in today's dollars) and other income you receive. Estimated benefits are also based on current law, which could change in the future.

### Retirement benefits

Although Social Security was never intended to be the sole source of retirement income, retirement benefits are still very important to many retirees. Your statement shows estimates of how much you can expect to receive if you begin receiving benefits at three different ages: your full retirement age (66 to 67, depending on your birth year), age 62 (your benefit will be

lower), or age 70 (your benefit will be higher). When to start claiming Social Security is a big decision that will affect your overall retirement income, so if you're approaching retirement, this information can be especially useful. But even if you're years away from retirement, it's important to know how much you might receive, so that you can take this information into account as you set retirement savings goals.

### Disability benefits

Disability is unpredictable and can happen suddenly to anyone at any age. Disability benefits from Social Security can be an important source of financial support in the event that you're unable to work and earn a living. Check your Social Security Statement to find out what you might receive each month if you become disabled.

### Survivor benefits

Survivor protection is a valuable Social Security benefit you may not even realize you have. Upon your death, your survivors such as your spouse, ex-spouse, and children may be eligible to receive benefits based on your earnings record. Review your Social Security Statement to find out whether your survivors can count on this valuable source of income.

### Review your earnings record

In addition to benefit information, your Social Security Statement contains a year-by-year record of your earnings. This record is updated whenever your employer reports your earnings (or if you're self-employed, when you report your own earnings). Earnings are generally reported annually, so keep in mind that your earnings from last year may not yet be on your statement.

It's a good idea to make sure that your earnings have been reported correctly, because mistakes do happen. You can do this by comparing your earnings record against past tax returns or W-2s you've received. This is an important step to take because your Social Security benefits are based on your average lifetime earnings. If your earnings have been reported incorrectly, you may not receive the benefits to which you're entitled.

What if you find errors? The SSA advises you to call right away if any earnings are reported incorrectly. The SSA phone number is 1-800-772-1213 (TTY 1-800-325-0778).



# 10 Financial Terms Everyone Should Know



Understanding financial matters can be difficult if you don't understand the jargon. Becoming familiar with these 10 financial terms may help make things clearer.

## 1. Time value of money

The time value of money is the concept that money on hand today is worth more than the same amount of money in the future, because the money you have today could be invested to earn interest and increase in value.

*Why is it important?* Understanding that money today is worth more than the same amount in the future can help you evaluate investments that offer different potential rates of return.

## 2. Inflation

Inflation reflects any overall upward movement in the price of consumer goods and services and is usually associated with the loss of purchasing power over time.

*Why is it important?* Because inflation generally pushes the cost of goods and services higher, any estimate of how much you'll need in the future--for example, how much you'll need to save for retirement--should take into account the potential impact of inflation.

## 3. Volatility

Volatility is a measure of the rate at which the price of a security moves up and down. If the price of a security historically changes rapidly over a short period of time, its volatility is high. Conversely, if the price rarely changes, its volatility is low.

*Why is it important?* Understanding volatility can help you evaluate whether a particular investment is suited to your investing style and risk tolerance.

## 4. Asset allocation

Asset allocation means spreading investments over a variety of asset categories, such as equities, cash, bonds, etc.

*Why is it important?* How you allocate your assets depends on a number of factors, including your risk tolerance and your desired return. Diversifying your investments among a variety of asset classes can help you manage volatility and investment risk. Asset allocation and diversification do not guarantee a profit or protect against investment loss.

## 5. Net worth

Net worth is what your total holdings are worth after subtracting all of your financial obligations.

*Why is it important?* Your net worth may fund most of your retirement years. So the faster and higher your net worth grows, the more it may

help you in retirement. For retirees, a typical goal is to preserve net worth to last through the retirement years.

## 6. Five C's of credit

These are character, capacity, capital, collateral, and conditions. They're the primary elements lenders evaluate to determine whether to make you a loan.

*Why is it important?* With a better understanding of how your banker is going to view and assess your creditworthiness, you will be better prepared to qualify for the loan you want and obtain a better interest rate.

## 7. Sustainable withdrawal rate

Sustainable withdrawal rate is the maximum percentage that you can withdraw from an investment portfolio each year to provide income that will last, with reasonable certainty, as long as you need it.

*Why is it important?* Your retirement lifestyle will depend not only on your assets and investment choices, but also on how quickly you draw down your retirement portfolio.

## 8. Tax deferral

Tax deferral refers to the opportunity to defer current taxes until sometime in the future.

*Why is it important?* Contributions and any earnings produced in tax-deferred vehicles like 401(k)s and IRAs are not taxed until withdrawn. This allows those earnings to compound, further adding to potential investment growth.

## 9. Risk/return trade-off

This concept holds that you must be willing to accept greater risk in order to achieve a higher potential return.

*Why is it important?* When considering your investments, the goal is to get the greatest return for the level of risk you're willing to take, or to minimize the risk involved in trying for a given return. All investing involves risk, including the loss of principal, and there can be no assurance that any investing strategy will be successful.

## 10. The Fed

The Federal Reserve, or "the Fed" as it's commonly called for short, is the central bank of the United States.

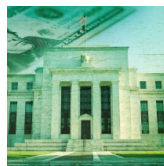
*Why is it important?* The Fed has three main objectives: maximum employment, stable prices, and moderate long-term interest rates. The Fed sets U.S. monetary policy to further these objectives, and over the years its duties have expanded to include maintaining the stability of the entire U.S. financial system.



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## Should I be worried about a Federal Reserve interest rate hike?

After years of record-low interest rates, at some point this year the Federal Reserve is expected to begin raising its target federal funds interest rate (the rate at which banks lend to one another funds they've deposited at the Fed). Because bond prices typically fall when interest rates rise, any rate hike is likely to affect the value of bond investments.

However, higher rates aren't all bad news. For those who have been diligent about saving and/or have kept a substantial portion of their portfolios in cash alternatives, higher rates could be a boon. For example, higher rates could mean that savings accounts and CDs are likely to do better at providing income than they have in recent years.

Also, bonds don't respond uniformly to interest rate changes. The differences, or spreads, between the yields of various types of debt can mean that some bonds may be under- or overvalued compared to others. Depending on your risk tolerance and time horizon, there are many ways to adjust a bond portfolio to help cope with rising interest rates. However, don't

forget that a bond's total return is a combination of its yield and any changes in its price; bonds seeking to achieve higher yields typically involve a higher degree of risk.

Finally, some troubled economies overseas have been forced to lower interest rates on their sovereign bonds in an attempt to provide economic stimulus. Lower rates abroad have the potential to make U.S. debt, particularly Treasury securities (whose timely payment of interest and principal is backed by the full faith and credit of the U.S. Treasury), even more attractive to foreign investors. Though past performance is no guarantee of future results, that's what happened during much of 2014. Increased demand abroad might help provide some support for bonds denominated in U.S. dollars.

Remember that bonds are subject not only to interest rate risk but also to inflation risk, market risk, and credit risk; a bond sold prior to maturity may be worth more or less than its original value. All investing involves risk, including the potential loss of principal, and there can be no guarantee that any investing strategy will be successful.



## Is there a new one-rollover-per-year rule for 2015?

Yes. The Internal Revenue Code says that if you receive a distribution from an IRA, you can't make a tax-free (60-day) rollover into another IRA if

you've already completed a tax-free rollover within the previous one-year (12-month) period. The long-standing position of the IRS was that this rule applied separately to each IRA someone owns. In 2014, however, the Tax Court held that regardless of how many IRAs he or she owns, a taxpayer may make only one nontaxable 60-day rollover within each 12-month period.

The IRS announced that it would follow the Tax Court's decision, but that the revised rule would not apply to any rollover involving an IRA distribution that occurred before January 1, 2015. The IRS recently issued further guidance on how the revised one-rollover-per-year limit is to be applied. Most importantly, the IRS has clarified that:

- All IRAs, including traditional, Roth, SEP, and SIMPLE IRAs, are aggregated and treated as one IRA when applying the new rule. For example, if you make a 60-day rollover from a Roth IRA to the same or another Roth IRA,

you will be precluded from making a 60-day rollover from any other IRA--including traditional IRAs--within 12 months. The converse is also true--a 60-day rollover from a traditional IRA to the same or another traditional IRA will preclude you from making a 60-day rollover from one Roth IRA to another Roth IRA.

- The exclusion for 2014 distributions is not absolute. While you can generally ignore rollovers of 2014 distributions when determining whether a 2015 rollover violates the new one-rollover-per-year limit, this special transition rule will NOT apply if the 2015 rollover is from the same IRA that either made, or received, the 2014 rollover.

In general, it's best to avoid 60-day rollovers if possible. Use direct (trustee-to-trustee) transfers--as opposed to 60-day rollovers--between IRAs, as direct transfers aren't subject to the one-rollover-per-year limit. The tax consequences of making a mistake can be significant--a failed rollover will be treated as a taxable distribution (with potential early-distribution penalties if you're not yet 59½) and a potential excess contribution to the receiving IRA.

