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Quiz: How Much Do You Know About Social Security Retirement Benefits?

Social Security is an important source of retirement income for millions of Americans, but how much do you know about this program? Test your knowledge, and learn more about your retirement benefits, by answering the following questions.

Questions

1. Do you have to be retired to collect Social Security retirement benefits?

a. Yes

b. No

2. How much is the average monthly Social Security benefit for a retired worker?

a. $1,360

b. $1,493

c. $1,585

d. $1,723

3. For each year you wait past your full retirement age to collect Social Security, how much will your retirement benefit increase?

a. 5%

b. 6%

c. 7%

d. 8%

4. How far in advance should you apply for Social Security retirement benefits?

a. One month before you want your benefits to start.

b. Two months before you want your benefits to start.

c. Three months before you want your benefits to start.

5. Is it possible for your retirement benefit to increase once you start receiving Social Security?

a. Yes

b. No

Answers

1. b. You don't need to stop working in order to claim Social Security retirement benefits. However, if you plan to continue working and you have not yet reached full retirement age (66 to 67, depending on your year of birth), your Social Security retirement benefit may be reduced if you earn more than a certain annual amount. In 2017, $1 in benefits will be deducted for every $2 you earn above $16,920. In the calendar year in which you reach your full retirement age, a higher limit applies. In 2017, $1 in benefits will be deducted for every $3 you earn above $44,880. Once you reach full retirement age, your earnings will not affect your Social Security benefit.

2. a. Your benefit will depend on your earnings history and other factors, but according to the Social Security Administration, the average estimated monthly Social Security benefit for a retired worker (as of January 2017) is $1,360.[1]

3. d. Starting at full retirement age, you will earn delayed retirement credits that will increase your benefit by 8% per year up to age 70. For example, if your full retirement age is 66, you can earn credits for a maximum of four years. At age 70, your benefit will then be 32% higher than it would have been at full retirement age.

4. c. According to the Social Security Administration, you should ideally apply three months before you want your benefits to start. You can generally apply online.

5. a. There are several reasons why your benefit might increase after you begin receiving it. First, you'll generally receive annual cost-of-living adjustments (COLAs). Second, your benefit is recalculated every year to account for new earnings, so it might increase if you continue working. Your benefit might also be adjusted if you qualify for a higher spousal benefit once your spouse files for Social Security.

For more information, visit the Social Security Administration website, [ssa.gov.](ssa.gov)

[1] Social Security Fact Sheet, 2017 Social Security Changes

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Tax Tips for the Self-Employed

Self-employed individuals make up 10.1% of the total U.S. workforce.

Source: U.S. Bureau of Labor Statistics, March 2016

Being self-employed has many advantages — the opportunity to be your own boss and come and go as you please, for example. However, it also comes with unique challenges, especially when it comes to how to handle taxes. Whether you're running your own business or thinking about starting one, you'll want to be aware of the specific tax rules and opportunities that apply to you.

Understand the self-employment tax

When you worked for an employer, payroll taxes to fund Social Security and Medicare were split between you and your employer. Now you must pay a self-employment tax equal to the combined amount that an employee and employer would pay. You must pay this tax if you had net earnings of $400 or more from self-employment.

The self-employment tax rate on net earnings (up to $127,200 in 2017) is 15.3%, with 12.4% going toward Social Security and 2.9% allotted to Medicare. Any amount over the earnings threshold is generally subject only to the Medicare payroll tax. However, self-employment and wage income above $200,000 is generally subject to a 0.9% additional Medicare tax. (For married individuals filing jointly, the 0.9% additional tax applies to combined self-employment and wage income over $250,000. For married individuals filing separately, the threshold is $125,000.)

If you file Form 1040, Schedule C, as a sole proprietor, independent contractor, or statutory employee, the net income listed on your Schedule C (or Schedule C-EZ) is self-employment income and must be included on Schedule SE, which is filed with your Form 1040. Schedule SE is used both to calculate self-employment tax and to report the amount of tax owed. You can deduct one-half of the self-employment tax paid (but not any portion of the Medicare surtax) when you compute the self-employment tax on Schedule SE.

Make estimated tax payments on time

When you're self-employed, you'll need to make quarterly estimated tax payments (using IRS Form 1040-ES) to cover your federal tax liability. You may have to make state estimated tax payments as well.

Estimated tax payments are generally due each year on the 15th of April, June, September, and January. If you fail to make estimated tax payments on time, you may be subject to penalties, interest, and a large tax bill at the end of the tax year. For more information, see IRS Publication 505, Tax Withholding and Estimated Tax.

Invest in a retirement plan

If you are self-employed, it is up to you and you alone to save sufficient funds for retirement. Investing in a retirement plan can help you save for retirement and also provide numerous tax benefits.

A number of retirement plans are suited for self-employed individuals:

- SEP IRA plan
- SIMPLE IRA plan
- SIMPLE 401(k) plan
- "Individual" 401(k) plan

The type of retirement plan you choose will depend on your business and specific circumstances. Explore your options and be sure to consider the complexity of each plan. In addition, if you have employees, you may have to provide retirement benefits for them as well. For more information, consult a tax professional or see IRS Publication 560, Retirement Plans for Small Businesses.

Take advantage of business deductions

If you have your own business, you can deduct some of the costs of starting the business, as well as the current operating costs of running that business. To be deductible, business expenses must be both ordinary (common and accepted in your field of business) and necessary (appropriate and helpful for your business).

Since business deductions will lower your taxable income, you should take advantage of any deductions to which you are entitled. You may be able to deduct a variety of business expenses, such as start-up costs, home office expenses, and office equipment.

Deduct health-care expenses

If you qualify, you may be able to benefit from the self-employed health insurance deduction, which would enable you to deduct up to 100% of the cost of health insurance that you provide for yourself, your spouse, your dependents, and employees.

In addition, if you are enrolled in a high-deductible health plan, you may be able to establish and contribute to a health savings account (HSA), which is a tax-advantaged account into which you can set aside funds to pay qualified medical expenses. Contributions made to an HSA account are generally tax deductible. (Depending upon the state, HSA contributions may or may not be subject to state taxes.)

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Grandparents Can Help Bridge the College Cost Gap

Assets in 529 plans reached $266.2 billion, spread over 12.7 million accounts, as of the second quarter of 2016.

Source: College Savings Plans Network, 529 Report: An Exclusive Mid-Year Review of 529 Plan Activity, September 2016

***Note:** Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing, along with each plan's specific investment options, underlying investments, and investment company. More information can be found in the plan's official disclosure statements and prospectus, which should be read carefully before investing. As with any investment, there are generally fees and expenses associated with participation in a 529 plan. There is also the risk that your underlying investments may lose money or not perform well enough to cover college costs as anticipated. Finally, be aware that your ability to take advantage of any 529 plan state tax benefits may be contingent on your enrollment in your own state's 529 plan.*

For many families, a college education is a significant financial burden that is increasingly hard to meet with savings, current income, and a manageable amount of loans. For some, the ace in the hole might be grandparents, whose added funds can help bridge the gap. If you're a grandparent who would like to help fund your grandchild's college education, here are some strategies.

529 college savings plan

A 529 college savings plan is one of the best vehicles for multigenerational college funding. 529 plans are offered by states and managed by financial institutions. Grandparents can open a 529 account on their own — either with their own state's plan or another state's plan — and name their grandchild as beneficiary (one grandchild per account), or they can contribute to an existing 529 account that has already been established for that grandchild (for example, by a parent).

Once a 529 account is open, grandparents can contribute as much or as little as they want, subject to the individual plan's lifetime limits, which are typically $300,000 and up. Grandparents can set up automatic monthly contributions or they can gift a larger lump sum — a scenario where 529 plans really shine.

Contributions to a 529 plan accumulate tax deferred (which means no taxes are due on any earnings made along the way), and earnings are completely tax-free at the federal level (and typically at the state level) if account funds are used to pay the beneficiary's qualified education expenses. (However, the earnings portion of any withdrawal used for a non-education purpose is subject to income tax and a 10% penalty.)

Under rules unique to 529 plans, individuals can make a lump-sum gift of up to $70,000 ($140,000 for joint gifts by a married couple) and avoid federal gift tax by making a special election on their tax return to treat the gift as if it were made in equal installments over a five-year period. After five years, another lump-sum gift can be made using the same technique. This strategy offers two advantages: The money is considered removed from the grandparents' estate (unless a grandparent were to die during the five-year period, in which case a portion of the gift would be recaptured), but grandparents still retain control over their contribution and can withdraw part or all of it for an unexpected financial need (the earnings portion of such a withdrawal would be subject to income tax and a 10% penalty, though).

What happens at college time if a grandchild gets a scholarship? Grandparents can seamlessly change the beneficiary of the 529 account to another grandchild, or they can make a penalty-free withdrawal from the account up to the amount of the scholarship (though they would still owe income tax on the earnings portion of this withdrawal).

Finally, a word about financial aid. Under current federal financial aid rules, a grandparent-owned 529 account is not counted as a parent or student asset, but *withdrawals* from a grandparent-owned 529 account are counted as student income in the following academic year, which can decrease the grandchild's eligibility for financial aid in that year by up to 50%. By contrast, parent-owned 529 accounts are counted as parent assets up front, but withdrawals are not counted as student income — a more favorable treatment.

Outright cash gifts

Another option for grandparents is to make an outright gift of cash or securities to their grandchild or his or her parent. To help reduce any potential gift tax implications, grandparents should keep their gift under the annual federal gift tax exclusion amount — $14,000 for individual gifts or $28,000 for joint gifts. Otherwise, a larger gift may be subject to federal gift tax and, for a gift made to a grandchild, federal generation-skipping transfer tax, which is a tax on gifts made to a person who is more than one generation below you.

An outright cash gift to a grandchild or a grandchild's parent will be considered an asset for financial aid purposes. Under the federal aid formula, students must contribute 20% of their assets each year toward college costs, and parents must contribute 5.6% of their assets.

Pay tuition directly to the college

For grandparents who are considering making an outright cash gift, another option is to bypass grandchildren and pay the college directly. Under federal law, tuition payments made directly to a college aren't considered taxable gifts, no matter how large the payment. This rule is beneficial considering that tuition at many private colleges is now over $40,000 per year. Only tuition qualifies for this federal gift tax exclusion; room and board aren't eligible.

Aside from the benefit of being able to make larger tax-free gifts, paying tuition directly to the college ensures that your money will be used for education purposes. However, a direct tuition payment might prompt a college to reduce any potential grant award in your grandchild's financial aid package, so make sure to ask the college about the financial aid impact of your gift.

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Can the IRS waive the 60-day IRA rollover deadline?

If you take a distribution from your IRA intending to make a 60-day rollover, but for some reason the funds don't get to the new IRA trustee in time, the tax impact can be significant. In general, the rollover is invalid, the distribution becomes a taxable event, and you're treated as having made a regular, instead of a rollover, contribution to the new IRA. But all may not be lost. The 60-day requirement is automatically waived if all of the following apply:

- A financial institution actually receives the funds within the 60-day rollover period.
- You followed the financial institution's procedures for depositing funds into an IRA within the 60-day period.
- The funds are not deposited in an IRA within the 60-day rollover period solely because of an error on the part of the financial institution.
- The funds are deposited within one year from the beginning of the 60-day rollover period.
- The rollover would have been valid if the financial institution had deposited the funds as instructed.

If you don't qualify for this limited automatic waiver, the IRS can waive the 60-day requirement "where failure to do so would be against equity or good conscience," such as a casualty, disaster, or other event beyond your reasonable control. However, you'll need to request a private letter ruling from the IRS, an expensive proposition — the filing fee alone is currently $10,000.

Thankfully, the IRS has just introduced a third way to seek a waiver of the 60-day requirement: self-certification. Under the new procedure, if you've missed the 60-day rollover deadline, you can simply send a letter to the plan administrator or IRA trustee/custodian certifying that you missed the 60-day deadline due to one of 11 specified reasons. To qualify, you must generally make your rollover contribution to the employer plan or IRA within 30 days after you're no longer prevented from doing so. Also, there is no IRS fee.

The downside of self-certification is that if you're subsequently audited, the IRS can still review whether your contribution met the requirements for a waiver. For this reason, some taxpayers may still prefer the certainty of a private letter ruling from the IRS.

What's the difference between a direct and indirect rollover?

If you're eligible to receive a taxable distribution from an employer-sponsored retirement plan [like a 401(k)], you can avoid current taxation by instructing your employer to roll the distribution directly over to another employer plan or IRA. With a direct rollover, you never actually receive the funds.

You can also avoid current taxation by actually receiving the distribution from the plan and then rolling it over to another employer plan or IRA within 60 days following receipt. This is called a "60-day" or "indirect" rollover.

But if you choose to receive the funds rather than making a direct rollover, your plan is required to withhold 20% of the taxable portion of your distribution (you'll get credit for the amount withheld when you file your federal tax return). This is true even if you intend to make a 60-day rollover. You can still roll over the entire amount of your distribution, but you'll need to make up the 20% that was withheld using other assets.

For example, if your taxable distribution from the plan is $10,000, the plan will withhold $2,000 and you'll receive a check for $8,000. You can still roll $10,000 over to an IRA or another employer plan, but you'll need to come up with that $2,000 from your other funds.

Similarly, if you're eligible to receive a taxable distribution from an IRA, you can avoid current taxation by either transferring the funds directly to another IRA or to an employer plan that accepts rollovers (sometimes called a "trustee-to-trustee transfer"), or by taking the distribution and making a 60-day indirect rollover (20% withholding doesn't apply to IRA distributions).

Under recently revised IRS rules, you can make only one tax-free, 60-day, rollover from any IRA you own (traditional or Roth) to any other IRA you own in any 12-month period. However, this limit does not apply to direct rollovers or trustee-to-trustee transfers.

Because of the 20% withholding rule, the one-rollover-per-year rule, and the possibility of missing the 60-day deadline, in almost all cases you're better off making a direct rollover to move your retirement plan funds from one account to another.

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