POLARIS
WEALTH ADVISORY GROUP

The Polaris Perspective

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Financial Planning Updates for 2016

We are always striving to help improve our clients' financial lives. Our Managing Partner, Jeff Powell, has done a great job writing about the markets and what Polaris Wealth Advisory Group (PWAG) is doing from a portfolio management perspective. We decided that it was equally important that our clients understand some of the financial planning strategies that we perform for our clients. Our wealth advisors will be picking a subject per month to write about and share with our clients. Please feel free to reach out to me to get your question queued up to be answered. In this educational piece, we will be discussing some recent changes which have a significant impact to the financial planning landscape in 2016.

Social Security Changes

The Bipartisan Budget Act of 2015 which was signed into law in November eliminated a number of advanced Social Security claiming strategies. While these tactics were legal, critics considered them loopholes that should be closed to improve the overall health of the Social Security program. In particular, the popular Social Security maximization strategies known as "file-and-suspend" and "restricted applications" are coming to an end.

Made possible by the Senior Citizens Freedom to Work Act in 2000, these "claim now, claim more later" strategies allowed married couples to increase their total lifetime Social Security income. By filing and immediately suspending the worker's benefit payments, an individual could continue working past full retirement age while allowing their spouse to collect the spousal benefit payment. The filing worker's benefit would continue to grow at a rate of 8% per year until age 70. By contrast, a restricted application allowed an individual to collect their spousal benefit payment while not filing for their own worker's benefit. Under the new law, anyone filing for benefits will immediately receive the larger of either the worker's benefit or the spousal benefit and is deemed to have filed for the larger of the two benefits at the time of filing.

So how will this impact you? That answer depends on your age and the particulars of your situation. Congress set a six-month timetable to transition to the new rules so many people will be grandfathered under the old rules. Anyone born on April 30, 1950, or earlier will still be able to file-and-suspend or file restricted applications. Individuals born prior to 1954 will continue to have flexibility in their ability to file a restricted application but the new rules will fully apply to anyone born in 1954 or later.

While these changes simplify things somewhat, Social Security planning continues to be a complex and important part of your retirement strategy. Please contact your PWAG wealth advisor to learn more about how changes will impact your particular situation.

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Qualified Charitable Distributions

Congress passed legislation in December entitled the Protecting Americans from Tax Hikes (PATH) Act of 2015 that permanently extended many popular tax provisions including, most notably, Qualified Charitable Distributions (QCD) from IRAs.

Taxpayers who are over age 70 ½ are permitted to make a QCD of up to $100,000 per year directly from an IRA to a charity. While the contribution to a charity is not permitted to be used as a tax deduction, the distribution from the IRA is not considered taxable income. In addition, any amount given to charity counts toward the taxpayer's Required Minimum Distribution (RMD) for the year. This allows individuals to fulfill their RMD while not increasing their tax liability.

QCDs have existed in limbo since their introduction as part of the Pension Protection Act of 2006, having lapsed and extended on four separate occasions. We welcome the permanent addition to the tax code as clients were often uncertain at year-end as to whether or not they would be able to use a QCD.

Fiduciary Standard Rule

When you work with Polaris Wealth Advisory Group, all of our recommendations and decisions are made with fiduciary prudence. As a registered investment adviser, we always act in the best interest of our clients and disclose any conflicts of interest. Other advisers, such as brokers and insurance agents, are not held to this high standard of care. The "suitability standard" set by FINRA for the brokerage industry states only that an investment must be suitable for a client.

After decades of industry infighting, it now appears the suitability standard's days may be numbered. The Department of Labor is in the final stages of approval for a tougher new rule that would raise the investment advice standards for retirement accounts to that of fiduciary care. The rule is expected to have a delayed implementation and will only apply to 401(k) and IRA accounts. However, we believe this is a good first step in the fight to hold all advisors accountable to their clients.

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What Didn't Change

In general, taxes did not change significantly from 2015 to 2016. Many tax provisions remain unchanged or only slightly adjusted for 2016:

- **The top tax rate remains set at 39.6%, but now begins at $415,050 for individuals rather than $413,200. For married taxpayers, the top tax rate now applies above $466,950 which is a $2,000 increase from 2015.**
- **The standard deduction for single and married couples filing jointly will not increase. However, taxpayers who file as "head of household" received a slight increase in their standard deduction from $9,250 to $9,300.**
- **Contribution limits to 401(k) plans remain unchanged at $18,000. The catch up contribution amount for those age 50 or older remains at $6,000 as well. Similarly, contribution limits for traditional and Roth IRAs remain unchanged at $5,500 with a $1,000 catchup contribution for those age 50 or older.**
- **The Estate Tax Exemption amount increased from $5,430,000 to $5,450,000.**

Moving Forward into 2016

Given these and other changes in 2015, as well as the continued market volatility, now is a great time to check in with your PWAG advisor. Financial planning is an ongoing process and we are always eager to share our insights in regards to the most-current information and best practices.

I welcome your questions or comments regarding any of the information above.

Sincerely,

Darren Kalb
Director of Wealth Management