Social Security Update

The annual inflation adjustments have been announced for the various Social Security amounts and thresholds, so we thought it would be a good time to update you for 2014.

For Social Security beneficiaries under the full retirement age, the annual exempt amount increases to $15,480 in 2014, up from $15,120 in 2013. These beneficiaries will be subject to a $1 reduction in benefits for each $2 they earn in excess of $15,480 in 2014. However, in the year beneficiaries reach their full retirement age, earnings above a different annual exempt amount apply. Earnings greater than $41,400 in 2014 (up from $40,080 in 2013) are subject to a $1 reduction in benefits for each $3 earned over this exempt amount. Social Security benefits are not reduced by earned income beginning with the month the beneficiary reaches full benefit retirement age. But remember, Social Security benefits received may be subject to federal income tax.

The Social Security Administration estimates the average retired worker will receive $1,294 monthly in 2014. The average monthly benefit for an aged couple where both are receiving monthly benefits is $2,111. These amounts reflect a 1.5% cost of living adjustment (COLA). The maximum 2014 Social Security benefit for a worker retiring at full retirement age is $2,642 per month, up from $2,533 in 2013.

Retirement Plan Review

Your retirement plan savings (e.g., qualified plans and IRAs) are important to your financial well-being for many reasons. You can accumulate income without currently paying tax, and the power of compounding pretax dollars makes a retirement plan one of the most powerful investment vehicles available. When you reach retirement age, your retirement plan assets may be a significant portion of your overall savings. Therefore, it is important to do everything you can to get the most out of one of the best investment opportunities you have. Listed below is information to consider when conducting a review of your retirement plans.

Generally, when you begin to withdraw funds from your retirement plans, you will be subject to tax on the distributions. If you made after-tax contributions to your plan, a portion of each distribution will be tax-free. Also, special rules apply to Roth IRAs that make them particularly beneficial. If distributions begin prematurely (generally before age 59½), you may be hit with a 10% penalty tax, but exceptions are available.

When you reach age 70½ (or in some cases, retire), you must start withdrawing a minimum amount from your traditional IRAs and qualified plans each year. Severe penalties can result if required minimum distributions are not made on a timely basis. However, distributions from Roth IRAs are not required during your lifetime.

At the time of your death, the beneficiary designation in effect will determine not only who gets the retirement plan assets, but also how quickly your account must be paid out to your beneficiary and, therefore, how quickly the benefits of tax deferral are lost. Beneficiary designation adjustments may be necessary as family and beneficiary conditions change (e.g., divorce).

Your retirement plan savings may be critical for you and your dependents' future well-being. With proper planning, you can maximize tax-deferred earnings, avoid penalty taxes, choose a desired beneficiary, and minimize the amount your heirs are required to withdraw (and pay taxes on) after your death.