2016: AN IMPORTANT YEAR FOR PLANNING

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You might think there's nothing new about taxes and planning for 2016 – tax rates, brackets, and exemptions are staying pretty much the same. Not so fast! Toward the end of 2015, Congress made major changes to Social Security and Medicare, and enhanced some key tax breaks. All this means 2016 will be an important year for planning – especially for those in their 60s or older.

SOCIAL SECURITY: New Limits on File-and-Suspend

Due to the Bi-Partisan Budget Act of 2015 (enacted Nov. 2, 2015), most Americans will have fewer options when it comes to strategizing about Social Security. The Act limits the advantages of "file-and-suspend," an option used to maximize Social Security payouts (see box).

In effect, Social Security pays people to wait: Say you turned 66 in 2015, but opt to wait until age 70 (2019) to collect what would normally be a $1,000 monthly benefit. That four-year postponement would increase your monthly check to $1,320. **This still will be the case going forward, but two related advantages (see box) will go away for most people.**

CHANGES DEPEND ON YOUR AGE

How File-and-Suspend changes will affect you going forward depends on your age. Therefore, everyone needs to start by asking: When is my birthday?

If you're 66 or older by April 29, 2016, Important Decisions Must Be Made! You have a short window of time – the next four months – to elect to use file-and-suspend in order to retain all three advantages (see box). After April 29, 2016, suspending your benefits will also suspend all family benefits. Plus, you won't be able to get a retroactive lump sum payment if you "unsuspend." An added twist is that former spouses (in a marriage that lasted for at least 10 years) will not be able to collect

"File-and-Suspend" Prior to 2016

People turning 66 (the Full Retirement Age) would file for Social Security and request that their payments be suspended. The advantages:

#1: Your benefits would then continue to grow 8% per year (for up to four years).

#2: Your family members could begin collecting benefits.

#3: You could "unsuspend" any time and get a lump sum of all payments skipped during the suspension.

the 50% divorced-spouse benefit if their ex-spouse suspends. This makes a former spouse vulnerable to his/her ex's decision to suspend, a nasty surprise for many no doubt.

NOTE: If you've already filed for Social Security and suspended payments, you're grandfathered in (pun intended). All the advantages of file-and-suspend will continue for you.

If you're 62 to 65 years old as of Jan. 1, 2016, take note:

You will still be allowed to file a "restricted application," when you reach Full Retirement Age (66), IF: (1) You are entitled to Social Security; and (2) You are (or were) married to someone who has filed for Social Security. In this case, you will be able to collect an amount equal to 50% of your spouse's (or ex-spouse's) benefit while you suspend your own benefit to keep that growing 8% annually until age 70. NOTE: If your spouse then opts to suspend his/her Social Security after April 29, 2016, your entitlement to the spousal benefit could be cut off (see above).

Younger than 62 on January 1, 2016?

Then you may need to revise your retirement income plans.

Some things to keep in mind: If you're single without dependents, suspending Social Security until age 70 to maximize your payments can make sense. But, if you're married, and/or have dependents who would collect Social Security based on your benefit, you should review your retirement income strategy to determine how to replace the higher "file-and-suspend" payments you were expecting.

Younger than 62 on Jan. 1, 2016? You may need to revise your retirement income plans.

Whether you claim benefits early (starting at age 62) or wait until 66 (Full Retirement Age), once you file you will be paid the highest benefit you're entitled to, whether that's a spousal benefit or your own benefit. You won't be allowed to choose. You'll still be able to postpone collecting Social Security to boost your payout by 8% annually for four years. However, unlike those who were 62 by Jan. 1, 2016, (see above) you won't be able to collect a spousal benefit while letting your own benefit grow. If you had been planning to do this, we can help you determine the next-best option.

PATH: Key Tax Breaks Now Permanent

On Dec. 18, 2015, the President signed into law the impressive sounding "Protecting Americans from Tax Hikes" (PATH) Act, which extended many breaks. More importantly, though, PATH made 24 tax breaks permanent. This provides certainty and opens up more possibilities, especially for philanthropic planning in 2016. Some of the provisions made permanent by PATH:

- The itemized deduction for state and local sales taxes (a plus for residents of WA and other states with no income taxes)
- American Opportunity Tax Credit (up to $2,500 annually) for post-secondary education
- Expanded charitable deductions for contributions of real estate for conservation
- 529 College Savings Plan improvements, such as allowing computer costs to qualify
- Deduction for educator out-of-pocket expenses ($250 annually)
- The Qualified Charitable Distribution (QCD)

The Qualified Charitable Distribution is especially helpful if you have maxed-out your tax advantage from regular charitable contributions due to limits on income or deductions. However, the QCD is only for people 70 ½ or older who donate (up to $100,000) from their IRA to a charity (but NOT to a donor-advised fund). That distribution/gift can be excluded from income and also counts toward the annual required minimum distribution.

For those under 70 ½, there are other ways to give to charity in tax-advantaged ways, and we are happy to discuss those strategies with you.

MEDICARE PART B: Some Clarity at Last

If you're on Medicare (65 or older), you probably know that higher-income individuals pay higher premiums for Part B, which covers doctors and outpatient care. About 6% of Medicare Part B beneficiaries are considered higher-income ($85,000 AGI for singles, $170,000 for marrieds). For this higher-income segment and some others, annual premium increases have been rather unpredictable. That's because of the tie-in between Medicare premiums and Social Security payments.

Basically, an increase in Medicare premiums cannot cause a decrease in someone's monthly Social Security payment. This is known as the "hold harmless" rule. However, "hold harmless" does not apply to higher-income individuals, and those who are on Medicare but not drawing Social Security (including those who have opted to file-and-suspend Social Security). For 2016, the Part B premium increase for all these people was expected to be a stiff 52%.

The good news is that we now have some clarity and relief. The 2015 Bi-Partisan Budget Act caps the annual premium increases for the above groups to the actual increase in the Part B program – 13% in 2016, plus a flat charge ranging from $3 to $9.60.

2016 MEDICARE PART B MONTHLY PREMIUMS

Per Beneficiary Premium in 2016				If Your Modified Adjusted Gross Income in 2014 Was:	
Base Premium	Income-Related Adj.	Repayment Surcharge	Total Premium	Single	Married Couple
$104.90		0	$104.90	$85,000 or less	$170,000 or less
$118.80		$3.00	$121.80	$85,000 or less*	$170,000 or less*
$118.80	$ 47.50	$4.20	$170.50	$85,001-$107,000	$170,001-$214,000
$118.80	$118.80	$6.00	$243.60	$107,001-$160,000	$214,001-$320,000
$118.80	$190.10	$7.80	$316.70	$160,001-$214,000	$320,001-$428,000
$118.80	$261.50	$9.60	$389.80	Above $214,000	Above $428,000

***And your first Social Security payment was received in 2016.**

SOURCE OF DATA: **Medicare.gov.**

WE ARE HERE TO HELP

As 2016 unfolds, we are happy to discuss how changes in the 2015 Tax Law and 2015 Budget Act are likely to affect your particular situation, to plan for any changes in your life and goals, and to take advantage of near-term opportunities.

ABOUT THE AUTHOR

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ABOUT LAIRD NORTON WEALTH MANAGEMENT

With nearly $5 billion in assets under advisement, Laird Norton Wealth Management is the Northwest's premier wealth management company. Originally founded to serve the financial management needs of the Laird and Norton families in 1967, the firm now provides personalized wealth management solutions for more than 425 individuals, families, business leaders, private foundations and nonprofit organizations. For nearly half a century, Laird Norton Wealth Management has been driven by a passionate commitment to help its clients and their families achieve security, find happiness and thrive in every aspect of their lives. The company is relentless in the pursuit of client satisfaction and is committed to never fail at putting a client's best interest as the number one priority.

DISCLOSURE