The Light

Fall 2016

A free quarterly publication of Lighthouse Wealth Management, Inc. Volume 6, Issue 4

Important Ages in Retirement Planning

By Tim Rowsey, CPA, Investment Advisor Rep.

From the time we are born, birthdays are important days in our lives. Some signify a new opportunity, such as driving at 16, or voting at age 18. As we approach retirement, there are many significant ages that also impact our lives. We thought it might be helpful to put together a summary of some of these significant ages and the implications that go with them.

The first milestone age relating to retirement is at age 50. This is the year that provisions in the tax code allow for "make-up" contributions to 401(k) plans and IRAs. For 2016, these "extra" amounts are $6,000 for 401(k) plans and $1,000 for both Roth and traditional IRAs. These amounts would be over and above the normal $18,000 401(k) and $5,500 IRA limits.

Congress, in its wisdom, made the second of these dates an unusual age – 59 ½. This is the age that the penalty for withdrawing funds from an IRA goes away. Prior to this age, if individuals withdraw money from their IRAs, there is typically a 10% penalty in addition to the tax that would be due on such a withdrawal. At 59 ½ this penalty goes away. For those who are fortunate enough to be able to retire before this age, there is a way this penalty might be avoided. The IRS has given us a provision in the tax code called 72(t) that might be a workaround in this situation. We would be glad to discuss this option if you fall into this category. In addition, there are also several other exemptions to the penalty that might enable access to IRA funds before the age of 59 ½ if certain

(continued on page 2)

When Should I Start Taking Social Security?

By Tim Rowsey, CPA Investment Advisor Rep.

As more and more baby boomers approach age 62, they face the question, "When should I begin taking Social Security benefits?" We are frequently asked this question and to answer it properly, you must consider several things.

First, the simple answer is the longer you wait up until age 70, the greater your benefits. A sample from the SSA's own website helps illustrate this. We will assume a person would receive a monthly benefit of $1,000 per month at full retirement age of 66. The same person would receive a reduced benefit of only $750 per month at age 62 and would receive an increased monthly benefit of $1,320 at age 70.

Using this scenario the cumulative amounts received at various ages are shown in the table below:

Age	Benefits at 62 $750/mo.	Benefits at 66 $1,000/mo.	Benefits at 70 $1,320/mo.
66	$36,000	$0	$0
70	$72,000	$ 48,000	$0
79	$153,000	$156,000	$142,000
85	$207,000	$228,000	$237,000
90	$252,000	$288,000	$316,800

As you can see from the chart, a person who waits until age 66 would receive $156,000 in total benefits by age 79, which is approximately the same benefit as the $153,000 received by a person who started benefits at age 62. Waiting until age 70 provides the highest total payout assuming a longer life expectancy. By age 90 more than $64,000 of additional benefits would have been received by the person who takes benefits at 70 rather than 62.

(continued on page 3)

Important Ages (continued from page 1)

qualifications are met.

The next important birthday is at age 62. This is the first age when an individual may begin claiming benefits from Social Security. These benefits are reduced compared to full retirement age; however, for some individuals it may be appropriate to begin claiming benefits at this age. There is a reduction in benefits compared to retiring at "full retirement age." This reduction can reduce the benefit to between 70% and 80% of the full retirement benefit. One other consideration for those who may want to draw benefits at age 62 is the potential requirement to repay benefits if earnings exceed a certain threshold. This amount is $15,720 for 2016. If earnings exceed this level, benefits are reduced by $1 for every $2 earned over this limit.

Age 65 is the next milestone birthday. This is the age when individuals who qualify are eligible for Medicare. To be eligible you must have worked at least 10 years and have paid Medicare taxes. Generally, it is a good idea to sign up for Medicare 3 months before your 65th birthday. With the increasing cost of health care, eligibility for Medicare is an increasingly important factor in the decision on when to retire.

The next milestone would be "full retirement age." This is a moving target depending on the birthdate of each individual. Originally, this was age 65 and matched the age of eligibility for Medicare. However, in 1983 Congress began phasing in a later full retirement age. Currently, the "full retirement age" is 66 for people born between 1943 and 1954. This gradually rises to age 67 for those born in 1960 or later. See the following chart for the phase-in birth year and to find your personal "full retirement age."

continued →

Birth Year	Full Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Once you reach your full retirement age, you can receive full unreduced social security benefits. In addition, the penalty for earning more than $15,720 is eliminated. At this age you can earn an unlimited amount and still collect full Social Security benefits.

Age 70 is another milestone. For those who are able to wait to collect benefits, there is a benefit increase of 8% per year for each year after full retirement that he or she delays collecting the benefit. This continues until age 70 when the maximum amount of benefit is reached. For those who have a full retirement age of 66, the benefits would be 32% higher at age 70 if they wait until then to draw.

Age 70 ½ is also an important date. This is the time that traditional IRA and 401(k) owners must begin taking RMDs or required minimum distributions. This is an amount that must be taken out of the IRA and the distribution amount becomes taxable. The amount is based on IRS tables and life expectancy of the IRA owner. This is also the date after which no additional traditional IRA contributions can be made.

Keeping up with all of these dates and rules can be a challenge. We recommend that you work with a qualified investment and tax professional who can help you through the complex maze of decisions. We would be glad to meet with you to discuss your personal situation and help you as you reach any of these important dates. ■

We offer paperless delivery of our newsletter and client reports. Please email Cheri at csmeltzer@lightwealth.com if you would like to go paperless!

Social Security (continued from page 1)

One additional consideration is the rule requiring a portion of Social Security benefits to be repaid if earned income is greater than $15,720. This rule is in effect between age 62 and full retirement age. It would require repayment of $1 of benefits for every $2 earned over the limit. This rule goes away at full retirement age of 66, and unlimited earnings are allowed. Claiming benefits early and repaying a portion of those benefits is probably not the wisest choice.

One important factor in the decision of when to claim is your need for funds in retirement. If you will not have sufficient resources without drawing benefits as early as possible, postponing for a high benefit may not be a realistic possibility. If taking this benefit at 62 is necessary for a retirement plan to work, then taking it would make sense.

The other significant issue is life expectancy and break even age. According to the Social Security web site a top wage earner turning 62 this year would have to live until at least age 78 to receive the same amount of benefit compared to waiting until age 66. Beyond age 78 they would receive a greater benefit if they waited to claim at age 66. In the same way the break-even age comparing claiming at 62 vs 70 is age 81 and comparing 66 vs 70 is 83. For anyone expecting to live beyond age 83, more lifetime benefits are received by waiting.

For a person who has earnings less than $15,720, who really needs the money now or doesn't have a long life expectancy, taking benefits at age 62 might be the right choice. For most others, waiting at least until full retirement age of 66, or even waiting until age 70, should provide more lifetime benefits as long as life expectancy exceeds age 83. With improvements in health care and life expectancy on the rise, waiting to claim may be a smart strategy. ■

Market Recap

How the major indices performed in the 3rd Quarter 2016:

DOW JONES INDUSTRIAL AVERAGE
3rd Quarter return 2.11% YTD return 5.07%

S & P 500 COMPOSITE
3rd Quarter return 3.31% YTD return 6.08%

RUSSELL 2000
3rd Quarter return 8.66% YTD return 10.19%

BARCLAYS AGGREGATE BOND
3rd Quarter return 0.46% YTD return 5.8%

Market Update

By Tim Rowsey, CPA
Investment Advisor Rep.

Equities grew again in the third quarter.
Once again, equity markets showed some significant volatility in the third quarter. Ultimately, the trend was positive. The Dow Jones Industrial Average ended the quarter with a gain of 2.1% and now stands at a 5% gain for the year. The S & P 500 also gained for the quarter, increasing by 3.3%. Small cap stocks as represented by the Russell 2000 had an even stronger quarter gaining 8.6% for the quarter.

Bonds were relatively flat for the quarter.
The Barclays aggregate Bond index increased by 0.46% for the quarter. Talk of a Fed rate increase spooked the markets several times in the quarter, but ultimately the Federal Reserve, once again, chose to pass on a rate hike. The possibility for a rate hike in December remains, but the probability of that increase is looking less likely.

The Presidential election is still the great unknown.
In a little over a month the Presidential race will finally be behind us and the markets can move ahead with the knowledge of who the next president will be. Oil production cuts have stabilized the oil market and given the stock market a little boost. We may see some continued volatility until after the November election. A balanced portfolio continues to be a good protective measure against stock market volatility. ■

Lighthouse Wealth Management
1078 Commerce Parkway
Ashland, Ohio 44805

Tim Rowsey, CPA
President
Investment Advisor Representative
Cell: 567-215-3015
trowsey@lightwealth.com

Aaron Rowsey
Vice President
Cell: 419-606-5239
arowsey@lightwealth.com

Greg Emmons
Investment Advisor Representative
Cell: 419-651-1507
gemmons@lightwealth.com

Cheri Smeltzer
Office Manager
csmeltzer@lightwealth.com

Phone: 419-496-0016
Fax: 419-496-0054
www.lightwealth.com

The Light is published quarterly by Lighthouse Wealth Management, Inc. Subscriptions are free. Paperless delivery is available upon request. Call Cheri Smeltzer at (419) 496-0016 or email csmeltzer@lightwealth.com to be added to our list or to change your subscription.

Lighthouse Wealth Management is an independent, fee-only investment advisory firm. We partner with you to help you navigate all the financial challenges of life. We can answer your financial questions, help with tax planning and preparation, and guide you with your investments to help you reach your financial goals. Call for a free investment review!

To learn more about the benefits of working with and independent advisor go to http://www.findyourindependentadvisor.com.

Lighthouse Wealth Management believes in giving back. We give 10% of our profits to charities, including several local charities and CURE, International. www.cure.org

Our Services

- Investments
- Retirement Planning
- 401(k) Rollovers
- Individual tax planning
- Financial guidance in all areas

Helping individuals navigate their financial lives.