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Happy New Year!

I hope you all had a great holiday season, with plenty of time to relax and enjoy friends and family. 2014 ended with a few positive notes that hopefully will carry over to 2015.

While it is very cold out and there is always plenty of snow to shovel or snowblow, it is a great time to review your financial situation. Tax information should begin arriving late this month and early February, so keep your eye out for those. If I can answer any questions, please don't hesitate to call. Thank you!

Steve

January 2015

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Information to chew on...

The IRS Taxpayer Bill of Rights

The Taxpayer Advocate Service, an independent organization within the Internal Revenue Service (IRS), has argued strongly for the creation of a list of taxpayer rights as a way to promote confidence in the fairness and integrity of the tax system (Source: National Taxpayer Advocate, Fiscal Year 2015 Objectives Report to Congress). In response, the IRS announced the adoption of a formal "Taxpayer Bill of Rights." It's worth noting that the rights listed are not new; the Taxpayer Bill of Rights simply groups and summarizes rights that exist in the Internal Revenue Code, making them easier to find and understand. Here are the 10 items that make up the list, along with short explanations.

The right to be informed

The IRS must provide clear explanations in all forms, instructions, publications, notices, and correspondence. You have a right to be informed of IRS decisions relating to your account, and to receive a clear explanation of any outcome.

The right to quality service

You should expect prompt, courteous assistance when you deal with the IRS. All communications from the IRS should be clear and understandable. If you have a problem with the way you are being treated by an IRS employee, you can ask to speak to that employee's supervisor.

The right to pay no more than the correct amount of tax

You are expected to pay only the amount of tax that is legally due, as well as penalties and interest on unpaid amounts.

The right to challenge the IRS's position and be heard

When the IRS takes or proposes any formal action--for example, proposing a change to your tax return as the result of a mathematical error--you have the right to object and to provide additional documentation that supports your position. You should expect the IRS to consider your response promptly and fairly.

The right to appeal an IRS decision in an independent forum

You have the right to a fair and impartial administrative appeal of most IRS decisions, generally through an independent IRS Office of Appeals that is separate from the IRS office that initially reviewed your case. You also generally have the right to take your case to either the United States Tax Court or a U.S. District Court (or the U.S. Court of Federal Claims).

The right to finality

You have a right to know all statutory time limits that apply. This applies to limits on the amount of time that the IRS has to assess tax, to audit a specific tax year, or to collect a tax debt, as well as the amount of time you have available to challenge an IRS position or action, or file a claim for a refund.

The right to privacy

All IRS inquiries, examinations, and enforcement actions must comply with the law and must be no more intrusive than necessary. You have specific due-process rights that the IRS must respect, including search and seizure protections.

The right to confidentiality

The IRS may not disclose your information to third parties without your permission, unless otherwise authorized by law.

The right to representation

You have the right to retain an authorized representative such as an attorney, CPA, or enrolled agent to represent you in dealing with the IRS.

The right to a fair and just tax system

You have a right to expect the tax system to consider all relevant facts and circumstances. This applies in the determination of the correct amount of tax owed, as well as your ability to pay, and your ability to provide necessary information in a timely manner.

The Taxpayer Bill of Rights is included in IRS Publication 1, *Your Rights as a Taxpayer.*

Don't assume that Social Security is just for retirees; it's much more than a retirement program. According to the SSA, approximately 21% of individuals currently receiving benefits are younger than retirement age who are receiving disability or survivor benefits. Get in the habit of checking your Social Security Statement every year to find out what role Social Security might play in your financial future.*

**Source: Fast Facts & Figures About Social Security, 2014*

No Matter What Your Age, Your Social Security Statement Matters

Fifteen years ago, the Social Security Administration (SSA) launched the Social Security Statement, a tool to help Americans understand the features and benefits that Social Security offers. Since then, millions of Americans have reviewed their personalized statements to see a detailed record of their earnings, as well as estimates of retirement, survivor, and disability benefits based on those earnings. Here's how to get a copy of your statement, and why it deserves more than just a quick glance, even if you're years away from retirement.

How do you get your statement?

In September 2014, the SSA began mailing Social Security Statements to most workers every five years. Workers attaining ages 25, 30, 35, 40, 45, 50, 55, and 60 who are not receiving Social Security benefits and are not registered for an online account will receive a statement in the mail about three months before their next birthday. Workers older than age 60 will receive a statement every year.

But why wait? A more convenient way to view your Social Security Statement is online. First, visit socialsecurity.gov to sign up for a personal *my* Social Security account (you must be 18 or older to sign up online). Once you have an account, you can view your Social Security Statement anytime you want, as often as you want.

Check your estimated benefits

Your Social Security Statement gives you information about retirement, disability, and survivor benefits. It tells you whether you've earned enough credits to qualify for these benefits and, if you qualify, how much you can expect to receive. As each Social Security Statement notes, the amounts listed are only estimates based on your average earnings in the past and a projection of future earnings. Actual benefits you receive may be different if your earnings increase or decrease in the future. Amounts may also be affected by cost-of-living increases (estimates are in today's dollars) and other income you receive. Estimated benefits are also based on current law, which could change in the future.

Retirement benefits

Although Social Security was never intended to be the sole source of retirement income, retirement benefits are still very important to many retirees. Your statement shows estimates of how much you can expect to receive if you begin receiving benefits at three different ages: your full retirement age (66 to 67, depending on your birth year), age 62 (your benefit will be lower), or age 70 (your benefit will be higher). When to start claiming Social Security is a big decision that will affect your overall retirement income, so if you're approaching retirement, this information can be especially useful. But even if you're years away from retirement, it's important to know how much you might receive, so that you can take this information into account as you set retirement savings goals.

Disability benefits

Disability is unpredictable and can happen suddenly to anyone at any age. Disability benefits from Social Security can be an important source of financial support in the event that you're unable to work and earn a living. Check your Social Security Statement to find out what you might receive each month if you become disabled.

Survivor benefits

Survivor protection is a valuable Social Security benefit you may not even realize you have. Upon your death, your survivors such as your spouse, ex-spouse, and children may be eligible to receive benefits based on your earnings record. Review your Social Security Statement to find out whether your survivors can count on this valuable source of income.

Review your earnings record

In addition to benefit information, your Social Security Statement contains a year-by-year record of your earnings. This record is updated whenever your employer reports your earnings (or if you're self-employed, when you report your own earnings). Earnings are generally reported annually, so keep in mind that your earnings from last year may not yet be on your statement.

It's a good idea to make sure that your earnings have been reported correctly, because mistakes do happen. You can do this by comparing your earnings record against past tax returns or W-2s you've received. This is an important step to take because your Social Security benefits are based on your average lifetime earnings. If your earnings have been reported incorrectly, you may not receive the benefits to which you're entitled.

What if you find errors? The SSA advises you to call right away if any earnings are reported incorrectly. The SSA phone number is 1-800-772-1213 (TTY 1-800-325-0778).

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In psychology, "heuristics" refers to the mental decision-making short-cuts that individuals develop over time based on past experiences. While heuristics can be helpful in avoiding unnecessary deliberation, they can also lead to misleading biases that can derail even the most well-thought-out financial plan.

Investor, Know Thyself: How Your Biases Can Affect Investment Decisions

Traditional economic models are based on a simple premise: people make rational financial decisions that are designed to maximize their economic benefits. In reality, however, most humans don't make decisions based on a sterile analysis of the pros and cons. While most of us do think carefully about financial decisions, it is nearly impossible to completely disconnect from our "gut feelings," that nagging intuition that seems to have been deeply implanted in the recesses of our brain.

Over the past few decades, another school of thought has emerged that examines how human psychological factors influence economic and financial decisions. This field--known as behavioral economics, or in the investing arena, behavioral finance--has identified several biases that can unnerve even the most stoic investor. Understanding these biases may help you avoid questionable calls in the heat of the financial moment.

Sound familiar?

Following is a brief summary of some common biases influencing even the most experienced investors. Can you relate to any of these?

1. **Anchoring** refers to the tendency to become attached to something, even when it may not make sense. Examples include a piece of furniture that has outlived its usefulness, a home or car that one can no longer afford, or a piece of information that is believed to be true, but is in fact, false. In investing, it can refer to the tendency to either hold an investment too long or place too much reliance on a certain piece of data or information.
2. **Loss-aversion bias** is the term used to describe the tendency to fear losses more than celebrate equivalent gains. For example, you may experience joy at the thought of finding yourself $5,000 richer, but the thought of losing $5,000 might provoke a far greater fear. Similar to anchoring, loss aversion could cause you to hold onto a losing investment too long, with the fear of turning a paper loss into a real loss.
3. **Endowment bias** is also similar to loss-aversion bias and anchoring in that it encourages investors to "endow" a greater value in what they currently own over other possibilities. You may presume the investments in your portfolio are of higher quality than other available alternatives, simply because you own them.
4. **Overconfidence** is simply having so much confidence in your own ability to select investments for your portfolio that you might ignore warning signals.
5. **Confirmation bias** is the tendency to latch onto, and assign more authority to, opinions that agree with your own. For example, you might give more credence to an analyst report that favors a stock you recently purchased, in spite of several other reports indicating a neutral or negative outlook.
6. The **bandwagon effect,** also known as **herd behavior,** happens when decisions are made simply because "everyone else is doing it." For an example of this, one might look no further than a fairly recent and much-hyped social media company's initial public offering (IPO). Many a discouraged investor jumped at that IPO only to sell at a significant loss a few months later. (Some of these investors may have also suffered from overconfidence bias.)
7. **Recency bias** refers to the fact that recent events can have a stronger influence on your decisions than other, more distant events. For example, if you were severely burned by the market downturn in 2008, you may have been hesitant about continuing or increasing your investments once the markets settled down. Conversely, if you were encouraged by the stock market's subsequent bull run, you may have increased the money you put into equities, hoping to take advantage of any further gains. Consider that neither of these perspectives may be entirely rational given that investment decisions should be based on your individual goals, time horizon, and risk tolerance.
8. A **negativity bias** indicates the tendency to give more importance to negative news than positive news, which can cause you to be more risk-averse than appropriate for your situation.

An objective view can help

The human brain has evolved over millennia into a complex decision-making tool, allowing us to retrieve past experiences and process information so quickly that we can respond almost instantaneously to perceived threats and opportunities. However, when it comes to your finances, these gut feelings may not be your strongest ally, and in fact may work against you. Before jumping to any conclusions about your finances, consider what biases may be at work beneath your conscious radar. It might also help to consider the opinions of an objective third party, such as a qualified financial professional, who could help identify any biases that may be clouding your judgment.

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Do you understand the definition of financial aid?

The term "financial aid" goes hand in hand with paying for college. But it can mean different things to different people, and often the term is used in various ways, even by colleges.

"Financial aid" is money that can help students pay for college. Many people think of student loans when they hear the term financial aid, but loans are just one part. In addition to loans, financial aid includes scholarships, grants, and work-study jobs. Scholarships and grants are gifts; they do not need to be repaid. Loans, on the other hand, have to be repaid with interest, while work-study jobs are a work obligation for the student. Aid can be need-based or non-need-based, though most people think of financial aid as being strictly need-based.

Loans. The main sources of loans are the federal government and private lenders. Students with the greatest financial need are eligible for the government's subsidized Stafford Loan and Perkins Loan ("subsidized" means Uncle Sam pays the interest while the student is in school and during certain other periods); all students are eligible for the government's unsubsidized Stafford Loan. The loan amounts are capped each year.

For parents, the government offers PLUS Loans, which let parents borrow up to the full cost of their child's education. Private lenders also offer student loans and parent loans. Generally, the government offers more favorable loan repayment options than private lenders, most notably several income-sensitive repayment options.

Grants & scholarships. Though students with the greatest financial need typically qualify for a federal Pell Grant, the main source of grants and scholarships for the majority of students is colleges. College grants and scholarships can be based on financial need (as determined by the college's own aid form) or on merit, whether academic, athletic, or some other talent. Colleges vary widely in the type (need-based or merit-based) and amount of grants and scholarships they offer. As your family researches college options, exploring these differences is probably the single biggest thing you can do to optimize your bottom line.

Work-study jobs. The government underwrites work-study jobs for the neediest students, but colleges may also offer campus jobs that are not necessarily based on need.