



FINANCIAL TID-BITTS

Information to chew on...



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Hi Everyone,

Summer went by way too fast and we already have signs Fall is on its way. Hopefully winter will be far off and short-lived this year.

As always, it's a great time to review your goals, plans, and portfolio. Please don't hesitate to call if I can help with any questions you might have on your financial situation or changes that have taken place. Thank you!

Steve

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Quiz: How Much Do You Know about Social Security?

What Is the Federal Reserve and What Does It Do?

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I just learned that my credit- and debit-card information was part of a data breach. What should I do?

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Quiz: How Much Do You Know about Social Security?



You're probably covered under Social Security--according to the Social Security Administration, an estimated 165 million workers are*--but how much do you know about this program? Test your

knowledge by answering the following questions.

Questions

1. If you decide to collect your retirement benefit starting at age 62, your benefit will be how much less than if you wait until your full retirement age?

- a. 5% to 10% less
- b. 15% to 20% less
- c. 25% to 30% less
- d. 35% to 40% less

2. Your spouse and children may be eligible for benefits if something happens to you.

- a. True
- b. False

3. The Social Security taxes that are collected from your paycheck are called:

- a. FUTA taxes
- b. FETA taxes
- c. FICA taxes

4. Once you reach full retirement age, you can work and earn as much as you want without reducing your Social Security benefit.

- a. True
- b. False

5. Once you begin receiving your retirement benefit, it will never increase.

- a. True
- b. False

Answers

1. c. If you were born in 1943 or later, you'll see a 25% to 30% reduction in your retirement benefit if you claim Social Security benefits at age 62, rather than waiting until your full retirement age (which is 66 to 67, depending on your year of birth). This reduction is permanent.

2. a. Social Security isn't just for retirees. Your spouse and dependent children may be able to receive survivors or disability benefits based on your earnings record if certain eligibility requirements are met.

3. c. Social Security payroll taxes are called FICA taxes because they are collected under the authority of the Federal Insurance Contributions Act. FICA includes two separate taxes: Social Security and Medicare. The Social Security portion is withheld from your pay at a rate of 6.2% (matched by your employer), but only on earnings up to the maximum earnings limit for the year (\$117,000 in 2014).

4. a. Before you reach full retirement age, your benefit will be reduced if your earnings exceed certain limits, but these earnings limits no longer apply once you reach full retirement age.

5. b. There are several reasons why your benefit might increase after you begin receiving it. First, you'll generally receive annual cost-of-living adjustments (COLA). Second, the Social Security Administration recalculates your benefit every year to account for new earnings, so your benefit might increase as a result. Your benefit might also be adjusted if you qualify for a higher benefit based on your spouse's earnings once he or she files for Social Security.

For more information, visit the Social Security Administration's website, www.ssa.gov.

*Social Security Basic Facts, 2014

What Is the Federal Reserve and What Does It Do?



The Fed's mission

The Federal Reserve is the central bank of the United States. Its mission is to provide the nation with a safer, more flexible, and more stable monetary and financial system. For more information on the Federal Reserve, visit www.federalreserve.gov.

Publications

The Federal Reserve releases several publications throughout the year, including the publicly available "Beige Book," which contains information on current economic conditions in each Federal Reserve Bank district, along with interviews with key business leaders, economists, and market experts.

If you follow financial news, you've probably heard many references to "the Fed" along the lines of "the Fed did this or that," or "market watchers are wondering what the Fed will do next." So what exactly is the Fed and what does it do, anyway?

What is the Federal Reserve?

The Federal Reserve--or "the Fed" as it's commonly called--is the central bank of the United States. Generally speaking, a central bank is a large, centrally controlled bank that's in charge of a country's interest rates, money supply, and banking system. Most countries have a central bank.

The U.S. Federal Reserve was created by the Federal Reserve Act of 1913, legislation that was enacted mostly in response to a series of financial panics. The Federal Reserve is charged with three main objectives: maximum employment, stable prices, and moderate long-term interest rates (the first two objectives are often referred to as the Fed's "dual mandate"). Over the years, the Federal Reserve's duties have expanded and evolved to include maintaining stability of the entire U.S. financial system.

How is the Fed organized?

The Federal Reserve isn't a single entity. It actually consists of four parts: (1) the Board of Governors, (2) the Federal Open Market Committee, (3) 12 regional Federal Reserve Banks, and (4) thousands of smaller member banks. What does each part do?

The Board of Governors--also called the Federal Reserve Board--is at the top. It consists of seven people who are nominated by the President and approved by the Senate. Each person is appointed for a 14-year term (terms are staggered, with one beginning every two years). The Board of Governors conducts official business in Washington, D.C.

The Chair of the Board of Governors--perhaps the most visible face of U.S. economic and monetary policy--is currently Janet Yellen, the former president of the Federal Reserve Bank of San Francisco. Dr. Yellen was sworn in on February 3, 2014, and is the first woman to hold this post. (Her term as Chair ends on February 3, 2018, and her term as a member of the Board of Governors ends on January 31, 2024.) Prior to Yellen, the Chair of the Federal Reserve was Ben Bernanke, who served from 2006 to 2014, and before him was the somewhat legendary Alan Greenspan, who served from 1987 to 2006.

Next is the Federal Open Market Committee, or FOMC, which is responsible for setting U.S.

monetary policy. The FOMC is made up of the Board of Governors and the 12 regional bank presidents. While all FOMC members discuss and debate economic policy, only 12 members have voting rights: all 7 Board of Governors members and 5 regional bank presidents (the president of the Federal Reserve Bank of New York is a permanent voting member of FOMC; the other regional bank presidents rotate as voting members). The FOMC typically meets eight times per year. When people wait with bated breath to see what the Fed will do next, they're usually referring to the FOMC.

Next are 12 regional Federal Reserve Banks that are responsible for typical day-to-day bank operations. The banks are located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco. (Rumor has it that in 1913 a Missouri senator would only vote for the Federal Reserve Act if his state were home to two regional banks.) Each regional bank has its own president and oversees the thousands of smaller member banks in its region.

So what does the Fed actually do?

The Federal Reserve does a lot of things, but one of its main functions is to set U.S. monetary policy. It does this primarily by: (1) setting the *discount rate*, which is the interest rate the Fed charges commercial banks on money it lends; (2) setting *reserve requirements*, which is how much a bank must hold in reserves; and (3) overseeing *open market operations*, which is the purchase and sale of government securities on the open market. Open market operations impact the *federal funds rate* (the interest rate that banks charge each other on overnight loans of federal funds), which in turn impacts the *prime rate* and the interest rates that consumers ultimately pay. The Fed's recent quantitative easing (QE) program, in which it has purchased mortgage-backed securities and U.S. Treasury bonds at regular intervals to increase the money supply, is a form of open market operations.

Why do people pay attention to the Fed? One reason is interest rates. People often look to the Fed for clues on which way interest rates are headed. Another reason is economic analysis and forecasting. Members of the Federal Reserve regularly conduct economic research, give speeches, and testify about inflation and unemployment, which can provide insight about where the economy might be headed. All of this information can be useful for consumers when making borrowing and investing decisions.

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The one-size-fits-all, fill-in-the-blank forms that do-it-yourself estate planning sources provide may be attractive to some individuals because they cost a fraction of what attorneys typically charge. But is saving a few dollars worth the risk of doing things incorrectly?

The Potential Pitfalls of DIY Estate Planning

Americans, by and large, are do-it-yourselfers. Books, websites, software programs, and even giant box stores exist solely to help ambitious Americans tackle all kinds of everyday challenges, from fixing leaky faucets to building backyard sheds. The same holds true for estate planning--there's certainly no dearth of information for those wanting to prepare their own wills and other important documents. However, do-it-yourselfers may want to exercise a bit of caution here.

Although do-it-yourself (DIY) estate planning can cost a fraction of what attorneys charge, depending on your personal situation, this may be a case of being penny-wise and pound-foolish.

Cheap, easy, and better than nothing

Proponents of DIY estate planning typically have two arguments:

1. **It's cheap and easy:** Creating a will and other estate planning documents on your own can cost far less than doing so with an attorney's assistance. You can find resources online and in the library that could help.
2. **It's better than nothing:** What happens if you die or become very ill without important estate planning documents? In that case, the state will make important decisions for you, such as how your property will be distributed, who will care for your minor children, and what medical care you'll receive if you are unable to make your wishes known.

These points are valid: For those who cannot afford to pay an attorney, DIY may be an economical alternative. For others, a poorly drafted will may be better than no will at all, especially when naming a guardian for minor children is involved. But there are several risks to DIY estate planning, including the risk that your wishes will not be carried out exactly as you intend.

Basic is not always ideal

Although DIY sources can typically handle the needs of simple estates, they generally are not appropriate for even the most common complexities such as children from a prior marriage, children with special needs, property that has appreciated in value resulting in capital gains, and estates that are large enough to be subject to estate taxes (typically those worth more than \$5,340,000 in 2014). Also, DIY sources generally fail to take advantage of sophisticated estate planning strategies because they usually can't account for an individual's unique circumstances.

Further, you may make an error by failing to understand the instructions or by following the instructions incorrectly.

The result is that the documents you create could be invalid, ineffective, or contain legal language having consequences you never intended. You might not know if that is the case during your lifetime, but at your death your loved ones will find out and may suffer the lasting consequences of your mistakes.

You may benefit from legal advice

DIY sources provide forms but not legal advice. In fact, these sources clearly state that they are not a substitute for an attorney, and that they are prohibited from providing any kind of legal advice.

Estate planning involves a lot more than producing documents. It's impossible to know, without a legal education and years of experience, what the appropriate legal solution is to your particular situation and what planning opportunities are available. The actual documents produced are simply tools to put into effect a plan that is specifically tailored to your circumstances and goals.

Estate planning laws change

Laws are not static. They constantly change because of new case law and legislation, especially when it comes to estate taxes. Attorneys keep up with these changes. DIY websites, makers of software, and other sources may not do as good a job at keeping current and up-to-date.

Fixing mistakes can be costly and time-consuming

As previously stated, working with an attorney to create your estate planning documents can be very expensive, costing anywhere from several hundred to several thousands of dollars, depending on the complexity of your estate. But these costs are minor compared to the costs and frustrations that your loved ones may experience if there are serious errors in your DIY estate plan. Many more thousands of dollars and many hours with attorneys may have to be spent to undo what was done wrong. Before embarking on a DIY estate plan, consider these risks very carefully.

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I just learned that my credit- and debit-card information was part of a data breach. What should I do?

Now, more than ever, consumers are relying on the convenience of credit and debit cards to make everyday purchases, such as gas and groceries, and to make online purchases. With this convenience, however, comes the risk of having your account information compromised by a data breach.

In recent years, data breaches at major retailers have become commonplace across the United States. Currently, most retailers use the magnetic strips on the backs of credit and debit cards to access account information. Unfortunately, the account information that is held on these magnetic strips is also easily accessed by computer hackers.

While many U.S. banks and financial institutions are in the process of replacing the older magnetic strips with more sophisticated and secure embedded microchips, it will take time for both card issuers and retailers to get up to speed on these latest card security measures.

In the meantime, if you find that your account information is at risk due to a data breach, you should make it a priority to periodically review

your credit card and bank account activity. If you typically wait for your monthly statement to arrive in the mail, consider signing up for online access to your accounts--that way you can monitor your accounts as often as needed. If you see suspicious charges or account activity, you should contact your bank or credit-card company as soon as possible.

In most cases, your bank or credit-card company will automatically issue you a new card and card number. If not, request to have new cards and card numbers issued in your name. As an additional precaution, you should also change the PIN associated with the cards.

Whether you will be held liable for the unauthorized charges depends on whether the charges were made to your credit- or debit-card account and how quickly you report them.

For more information on your rights if you are affected by a data breach, visit the [Federal Trade Commission](#) and [Consumer Financial Protection Bureau](#) websites.