

Social Security: Are you an Early Bird?

By Karen Cho, CPA

Like many other baby boomers approaching retirement, a couple of years ago, my dad had to make the decision as to when he should start collecting his Social Security retirement benefits. The main factor entering into this decision was how long he estimated he will live. Insurance companies, financial planning websites, and even the Internal Revenue Service provide life expectancy tables which can be used as tools to help determine how long you will likely live. An individual can request an earnings history and have an estimate of their Social Security benefit calculated on the Social Security website (www.ssa.gov/planners/calculators.htm). You will need to provide your projected annual earnings until retirement, assuming different retirement dates.

In order to draw Social Security retirement benefits one must meet certain requirements. First, you must have earned 40 quarters of work credits (10 years of work). In 2007, you earn one credit for each \$1,000 of earnings, up to a maximum of four credits per year. Next, is a computation of the highest 35 years of earnings. An inflation factor is applied to all earnings before the age of 60. The third is determining at which age you will begin to draw your benefits.

There are pros and cons with early, full and delayed retirement. Currently, one can start collecting as early as age 62. There are certain benefits in receiving your Social Security as early as possible. Early benefits can provide a much needed safety net for anyone who has no other source of income or whose income is not sufficient to cover their day-to-day living needs. If someone draws early benefits and is still working, they can earn a maximum amount of \$12,960 per year without reducing their benefit. If they earn over this threshold, their bene-

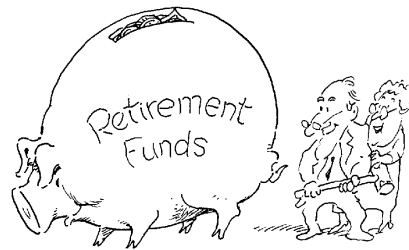
fit is reduced by \$1 for every \$2 earned. However, except for annual cost-of-living increases their lowered benefit will not increase at full retirement age and the retiree will receive the lowered income

for the rest of his or her life. Even if you don't need the income to live on immediately, it is possible that early withdrawal may be to your benefit. If you take the income and diligently invest it, in the long run your earnings could exceed the higher amount that you would receive

had you held off until a later retirement age. If your spouse will need as much earning as possible, it maybe best to wait till normal or a later retirement age.

For a person born in 1942, full retirement age is at 65 and 10 months and there is a maximum monthly benefit of more than \$2,300. For those born later, full retirement age increases till it reaches age 67. If you hold off collecting benefits till full retirement, you will receive more income each month. However, if the person has taxable income of \$25,000 (\$32,000 on a joint return) while collecting benefits, up to 85% of the Social Security payments may be subject to federal income tax. If you wait to collect, then the larger benefit is helpful. A drawback is that if you wait, but pass away before receiving any benefits, then you will have collected nothing.

Delayed retirement is available for a worker over the full retirement age. At age 70, you will automatically receive Social Security benefits. However, you should remember to sign up for Medicare at age 65 regardless of when you retire. Benefits are increased by a monthly percentage and each additional year you work adds another year of earnings



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Social Security

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to the Social Security record, possibly resulting in a higher lifetime earnings and a higher benefit amount. One other important factor to consider is that once you start to receive the Social Security benefits, your other family members, such as your spouse age 62 or older and your children under age of 18, may be eligible for benefits as well. If you died before receiving the benefits, your widow and any unmarried children under age 18 may

collect the benefits. You can find more information from the Social Security website, www.ssa.gov.

In my father's case, he had no other source of income nor any retirement plans or significant personal savings, which made his decision fairly simple. But for other retirees with other income sources, the decision may not be as simple as my dad's. This is why it is important to do pre-

retirement calculations, taking into account any changing circumstances and/or changes in the rules that apply to Social Security benefits, pensions and other investments. You're welcome to consult with us about your situation to assist you to determine your best course of action.

STOP THE PRESSES!!

On January 9, 2007 during a luncheon presentation at the AICPA Personal Financial Planning Conference in Las Vegas, Mitch Freedman was presented with the AICPA Personal Financial Planning Distinguished Service Award for 2006. This award was given to him in recognition of his volunteering for, among other efforts, more than 15 years of continuous committee service, his frequent speaking engagements, writings, and being a spokesperson for disaster planning, PrimePlus/ElderCare Services, and financial literacy .

TIPS & ALERTS

ScholarShare News

By Karin Sheard

ScholarShare, the California 529 Plan that provides parents, grandparents and others a tax-advantaged way to save for a child's education has terminated its relationship with TIAA-CREF and entered into a new contract with Fidelity Investments. Beginning in November 2006 this contract offers new advantages for those utilizing this plan.

- Lower Fees - Most fees will be reduced by nearly 40%.

- More Benefits - Access to no-cost, unlimited college planning and guidance services and college planning seminars to educate families about college costs and savings options.

- Representatives providing account assistance online, or by phone 24/7.

- More Choices - Access to nine more investment options and the ability to choose from index and actively managed portfolios.

Complete information about this college savings plan is available at www.scholarshare.com, by email at scholarshare@treasurer.ca.gov or telephone 916/651-6380.



From The Corner Office

A New Look For *The MFAC Report*

By Mitchell Freedman, CPA/PFS



It's hard to believe that we have been publishing *The MFAC Report* for twelve years. During its existence we have periodically tweaked its appearance but we have kept to our basic theme of making it "homey," readable, and, hopefully, relevant to our clients, friends, and business contacts and colleagues.

Over the years we have been gratified by the positive feedback that we have received from readers about our quarterly newsletter. We have been proud to provide material that is not "canned," as we write and edit all articles ourselves.

Starting with this issue we've made a more drastic change, to enable our readers to better navigate *The MFAC Report*. We've changed the format, adding more white space, to reduce text clutter. For now, we will continue to provide the same content that you are accustomed to. We will continue to have a "feature" article that we hope will provide you with useful information. We will also continue to publish our columns, "Tips & Alerts," and "Tax Notes," which provide our readers with information relative to their personal finances and taxes. I will continue to write "From the Corner Office" because – well, that's where I sit. This column could

be on any subject and might contain an op-ed piece. Lastly, "Heard in the Hall" will continue to provide readers with information regarding goings on and accomplishments of individuals at Mitchell Freedman Accountancy Corporation and MFAC Financial Advisors, Inc.

Let us know what you think of our new format. We certainly hope that you enjoy it and find the information contained in *The MFAC Report* useful. We take our readers' comments seriously. You can communicate them to newsletter@mfac-bizmgt.com

Tax Notes

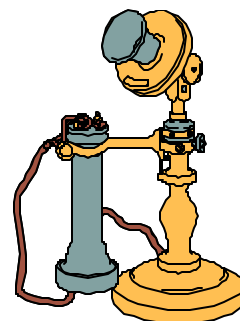
Telephone Excise Tax Refund

By Tom Trent, EA

In 1898 Congress passed a tax on telephone bills to help pay for the Spanish-American War. More than a century after that war ended we were still paying that tax. Finally, in May 2006, Congress and the Treasury Department caved in to years of pressure and announced an end to the long-distance portion of the tax. Not only did they end it, but they agreed to credit or refund the tax paid after February 2003 and before August 2006. Before you start planning on taking a vacation with your refund, be aware that the refund will amount to only a few dollars for most taxpayers. Large businesses and individuals with high long-distance bills will see the biggest refunds, but they'll

also need to go through 41 months of telephone bills to get them.

The IRS is making it easier for individuals by offering a standard amount between \$30 and \$60, depending on the number of exemptions claimed on your tax return, avoiding the need to gather old phone bills and isolate the long-distance tax paid. Businesses and not-for-profit organizations will need to base their refund on the actual tax paid, but the IRS has come up with a formula that will make the process somewhat easier. In order to calculate the tax, you will need your telephone bills for the periods ending in April and September 2006, as well as the annual totals of the



bills for 2003, 2004, 2005 and 2006.

Individuals who are paying tax preparation fees on an hourly basis will need to weigh the cost of additional preparation time against the additional refund that might be realized. If you paid a lot for long-distance, it may be to your advantage to go the longer route. For our tax clients, MFAC is currently developing an Excel spreadsheet that you can use to compile the information needed to calculate the refund. Email us at newsletter.mfac-bizmgt to request a copy when it's available.

The MFAC Report

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**MFAC Financial Advisors, Inc. and
Mitchell Freedman Accountancy Corporation**

Heard In The Hall

Mitch Freedman attended a conference of the Association of CPA Financial Planners in Chicago October 6 and 7, 2006. He also attended the AICPA Annual Members and Council meetings in Las Vegas October 22nd to 24th and on November 1st, he attended a California JumpStart Coalition Board of Directors Meeting in Los Angeles. Mitch also attended a meeting of the AICPA Prime-Plus/ElderCare Task Force at the new facilities of the AICPA in Durham, NC, November 16th and 17th.

In November and December Mitch was the featured speaker in a two-part podcast, that could be accessed on the home page of CalCPA's web site, on the subject



"Renting your First Apartment." He was also featured in the Fall 2006 issue of the AICPA's CPA candidate magazine, *Start Here Go Places*, in an article titled "The Math of Tom Cruise," and in the November 2006 issue of *Financial Advisor*, in an article titled "P&C Insurance for the Rich and Famous." Mitch appeared on KABC7, Eyewitness News, with Ric Romero, October 19th, discussing the performance of the stock markets.

*Thank you for your
referrals*

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