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Spring 2010

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WATERFORD ADVISORS
An SEC Registered Investment Advisor

Quarterly Newsletter

INVESTMENT COMMENTARY—FIRST QUARTER 2010

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Following a strong March, all domestic equity asset classes are now well into positive territory year-to-date. The large-cap Vanguard 500 Index was up 5.4% for the quarter, while the iShares Russell Midcap benchmark gained 8.6% and the small-cap iShares Russell 2000 gained 8.8% for the first three months. Foreign stocks also posted strong gains in March and are now in the black for the year so far, with the Vanguard Total International Stock Index and the Vanguard Emerging Market Stock Index up 6.7% and 8.2% for the month, and 1.5% and 2.5% for the quarter, respectively.

Turning to fixed income, the domestic intermediate-term, investment-grade Vanguard Total Bond Market Index gave up a bit of ground (-0.1%) in March, though it posted a positive 1.7% return year-to-date. Emerging-markets bonds gained an impressive 4% for the month (as measured by the JPMorgan GBI-EM Global Diversified Index), ending the quarter with a 5.4% return. High-yield bonds posted a 3.1% gain in the month, ending the quarter up 4.8%.

Our models all beat their benchmarks in the first quarter, and remain well ahead over the trailing 12 months. We talk more about our current views and portfolio positioning in the commentary that follows.

THE BIG PICTURE, THE INVESTMENT LANDSCAPE, AND OUR PORTFOLIO STRATEGY

Making decisions is easy; making good decisions is the hard part. Making good investment decisions is especially difficult because it requires blending information, analysis, experience, judgment, and client needs on a playing field where the game never stops, the rules can change without warning, and almost nothing can be known with certainty. Some environments are more difficult than others because the consequences of being wrong are potentially higher, and/or because the range of possible outcomes is wider. This is the kind of environment we believe we are in now, and it influences the way we approach the investment decisions we make. More so than in past periods, the investment climate in the years ahead will be highly influenced by how certain macro trends unfold, particularly the massive amount of debt within the global system.

LOOKING DOWN FROM 30,000 FEET, THE LANDSCAPE IS DOMINATED BY MOUNTAINS OF DEBT

We've seen massive growth in debt throughout society, reaching binge levels in the last decade. This debt growth fueled a lot

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MARCH BENCHMARK RETURNS (PRELIMINARY)

Large-Cap Benchmarks	Mar	1Q	YTD
Vanguard 500 Index	6.0%	5.4%	5.4%
Russell 1000 iShares	6.1%	5.6%	5.6%
Russell 1000 Growth iShares	5.8%	4.6%	4.6%
Russell 1000 Value iShares	6.5%	6.7%	6.7%
Mid-Cap Benchmarks			
Russell Midcap iShares	7.0%	8.6%	8.6%
Russell Midcap Growth iShares	6.8%	7.6%	7.6%
Russell Midcap Value iShares	7.3%	9.5%	9.5%
Small-Cap Benchmarks			
Russell 2000 iShares	8.1%	8.8%	8.8%
Russell 2000 Growth iShares	7.9%	7.6%	7.6%
Russell 2000 Value iShares	8.3%	10.0%	10.0%
Other Benchmarks			
Vanguard Total Int'l Stock Index	6.7%	1.5%	1.5%
Vanguard Emerging Market Stock Index	8.2%	2.5%	2.5%
Vanguard REIT Index	10.1%	10.0%	10.0%
Vanguard Total Bond Market Index	-0.1%	1.7%	1.7%
Merrill U.S. High-Yield Cash Pay	3.1%	4.8%	4.8%
Citigroup World Govt. Bond Index	-1.7%	-1.3%	-1.3%
JPMorgan GBI-EM Global Div. Index	4.0%	5.4%	5.4%
DJ-UBSCI (Commodity Futures)	-1.2%	-5.0%	-5.0%

TAX CORNER

HEALTH CARE PLAN HAS A HEARTY LIST OF NEW TAXES & TAX INCREASES

The new health care reform law is full of new taxes and tax increases that will affect many individuals and businesses, but it will be years before most of these changes take effect. The law also has tax breaks to help both individuals and small businesses pay for insurance.

Figuring out exactly what the new law's impact will be on your finances will be complicated, not only because many of the effective dates are delayed, but also because the law signed by President Obama will likely change again.

Take a look at what's coming down the road, starting with provisions that take effect first:

- Giving small firms tax credits as incentives to provide coverage, starting this year. Employers with 10 or fewer workers and average annual wages of less than $25,000 can receive a credit of up to 35% of their health premium costs each year through 2013. The credit is phased out for firms larger than that and disappears completely if a company has more than 25 employees or average annual wages of $50,000 or more. Beginning in 2014, small firms that sign up with one of the health exchanges to be created can receive a credit of up to 50% of their costs.
- A requirement that businesses include the value of the health care benefits they provide to employees on W-2s, beginning with W-2s for 2011.
- Elimination, after this year, of a deduction employers now take for providing Medicare Part D prescription drug coverage to their retirees to the extent that the federal government subsidizes the coverage. This will not take effect until 2013.
- Doubling the penalty for nonqualified distributions from health savings accounts, to 20%, beginning in 2011.
- A limit on the amount that employees can contribute to health care flexible spending accounts to $2,500 a year. Under the House package of changes, the cap won't take effect until 2013.

- A ban on using funds from flexible spending accounts, health reimbursement arrangements or health savings accounts for the cost of over-the-counter medications, starting in 2011.
- ***Imposing a 0.9% Medicare surtax on wages of single taxpayers earning more than $200,000 a year and couples earning over $250,000, starting in 2013. In addition, the House's package of modifications would levy a special 3.8% Medicare tax on the unearned income of those taxpayers. The House defines unearned income as interest, dividends, capital gains, royalties and rents. Tax-exempt interest would not be included, nor would income from retirement accounts. Unearned Income indeed, since when is any income 'Unearned'!***
- A hike in the 7.5% floor on itemized deductions for medical expenses to 10 percent, beginning in 2013. But taxpayers age 65 and over are exempt from the cutback through 2016.
- A new 40% excise tax, beginning in 2013, on high-cost health plans, defined as those providing coverage in excess of $8,500 for individuals and $23,000 for families. The House's package of modifications includes higher threshold amounts and an initial effective date of 2018.
- A new tax on individuals who don't obtain adequate health coverage by 2014. The tax is be phased in over three years, starting at the greater of $95, or 0.5% of income, in 2014, and rising to the greater of $750, or 2% of income, in 2016.
- Providing a refundable tax credit, once the individual mandate takes effect in 2014, to help low-income folks purchase coverage. To be eligible, a person's household income would generally be around $11,000 to $44,000 for singles and $22,000 to $88,000 for families.
- A nondeductible fee charged to businesses with 50 or more employees if the firms fail to offer adequate coverage. The fee will equal $750 times the number of workers in the firm, and is slated to go into effect in 2014.

These tax increases and in some cases new taxes, coupled with the proposed increase in marginal income tax rates, capital gain tax rates and the uncertainty regarding the Estate tax rates and provisions will make tax planning much more difficult and at the same time much more crucial. This is why we at Waterford Advisors have added additional resources to our tax department over the last year in an effort to better serve our clients.

TAX CORNER

HOW YOUR INCOME STACKS UP

Where do you rank as a taxpayer? You may not feel rich earning $35,000 a year, but you're in the top half of taxpayers. Make $70,000, and you earn more than 75% of fellow taxpayers.

Even as the Great Recession ends, we know the economic wounds it inflicted will take years to heal. The national unemployment rate has breached 10%, and unemployment is higher than 12% in California and above 15% in Michigan. A new study from the Department of Agriculture found that nearly 50 million Americans struggled at some point in 2008 to get enough to eat.

More than 40 million Americans are officially living in poverty. And you might be surprised at how little income it takes to not be considered poor by the federal government. For 2008, the poverty threshold for a single person under age 65 was an income of $11,201, or less than $1,000 a month. For a family of four, the threshold was $21,834. For a family of six, $28,769.

With that perspective, you may wonder just how your income stacks up against that of your fellow citizens. New statistics from the IRS provide an answer. The numbers here come from an analysis of 2007 tax returns, and show that an income of $32,879 or more puts you in the top half of taxpayers. Earning a bit more than twice that much, $66,532, puts you among the top 25% of all earners. You crack the elite top 10% if you earn more than $113,018.

And $410,096 buys top bragging rights: Earn that much or more and you're among the top 1% of all American earners.

The following table shows the income categories, the percentage of income earned, and the tax burden paid by each category.

BREAKDOWN OF INCOME AND TAXES PAID BY CATEGORY

Income Category	2007 AGI	Percent of All Income	Percent of Income Taxes Paid
Top 1%	Over $410,096	23%	40%
Top 5%	Over $160,041	37%	61%
Top 10%	Over $113,018	48%	71%
Top 25%	Over $66,532	69%	87%
Top 50%	Over $32,878	88%	97%
Bottom 50%	Under $32,879	12%	3%

AVOIDING GIFT TAX RETURN PROBLEMS

The IRS recently said it was beginning a program to identify people who do not file required gift tax returns. It believes the program will identify a large amount of unpaid taxes.

Gift tax returns must be filed when a gift exceeds the annual gift tax exclusion, currently at $13,000 per recipient per year. Gifts that exceed the annual exclusion either reduce the annual lifetime gift tax credit (which exempts up to $1 million of gifts from taxes) or are subject to gift taxes.

The IRS believes technology and agreements with state governments let it identify more instances of unfiled gift tax returns. It will start by sending letters to people it suspects have not filed returns, suggesting that they file.

We recommend filing gift tax returns even when they are not required. The IRS likes to go back and revalue gifts made in the past, sometimes many years in the past. When no gift tax return was filed, there is no statute of limitations on revaluing gifts. But when a return was filed, the IRS has only three years to audit the return and make adjustments. The limitations period is seven years if the understatement of tax is significant. When there is any chance the IRS could question the value of a gift, it is best to file a gift tax return to start the statute of limitations.

DEDUCTING LONG-TERM CARE EXPENSES

At least some of the expenses of a nursing home or assisted living facility usually are deductible as medical expenses. The amount of the deductions depends on the circumstances. You have to know the rules to maximize your deduction.

When the primary reason for residing in a nursing home is one's physical condition and the availability of medical care, the entire cost of the nursing home is deductible. But if medical care is not the primary reason for residing in the nursing home, if the resident needs primarily custodial care, only the costs attributable to medical or nursing care are deductible. Payments for food, lodging, and other personal expenses are not deductible in that case. Most nursing homes provide itemized bills for their services; these are helpful in determining the deductible expenses. You should request one if it is not given.

Deducting the cost of an assisted living facility is trickier, because assisted living primarily is a residential facility not medical facility. Deductions are the most limited for residents who can perform at least five of the six activities of daily living (eating, toileting, transferring, bathing, dressing, and continence). These individuals deduct only the portion of the costs that are directly for nursing care or other health care. These should be itemized in the bill.

But when the assisted living resident cannot perform two or more of the activities of daily living, the entire cost of the facility can be deducted if the resident has a plan of care in place. A plan of care can be drawn up by a physician, nurse or physical therapist.

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of spending, but reducing debt means the money has to come from somewhere, and much will come from reduced spending. This suggests a sluggish economy, possibly for many years to come.

"I'm living so far beyond my income that we may almost be said to be living apart."

~ E. E. Cummings

Meanwhile, government spending has kept the economy from falling off a cliff, but at a longer-term cost of massive deficits that will be difficult to fix without causing more damage including the possibility that shifting gears to cut budget deficits too early could throw the economy into a significant and ugly decline.

The recent economic strength stems mostly from this stimulus spending and smaller inventory drawdowns, both of which can't be sustained. A key factor in the economy is jobs, and data suggests the job market remains poor and there is little basis to think this will change quickly or dramatically.

Other big problems include huge amounts of commercial real estate debt coming due, continued strains in the housing market, and possible high inflation down the road from deficit spending.

There are some positives that could contribute to a better outcome, including continued strength from emerging economies. Domestically, we could see stimulus spending, low rates, and inventory rebuilding create a virtuous circle in which businesses with strong balance sheets add jobs, and consumer and business confidence builds and feeds on itself.

A year ago the stock market had just started its rebound from the depths of the worst bear market in over 70 years. The powerful rally in "risk" assets over the past year is certainly comforting. And we take some satisfaction in the returns we've achieved for our clients (and ourselves) since that time. However, we remain quite concerned, and our assessment of the key macro issues and risks that the global economy must deal with in coming months and years has not changed. Though the worst case of a great depression has been avoided, the global economy continues to struggle in the aftermath of massive wealth destruction and a hard stop to the decades-long trend of expanding indebtedness. Many sectors of the global economy still must reduce debt (or at least, debt growth) and spending levels, including: households in the United States and a number of developed countries, state and municipal governments, most developed country governments as well as some lesser developed countries (e.g., Greece), and the residential and commercial real estate sectors.

OUR INVESTMENT OUTLOOK IN THIS TIME OF GREAT UNCERTAINTY

Our scenario-driven analysis gives us a feel for the range of possible outcomes. We think mid-single-digit returns are more likely for the stock market (remember, you do not own the market) over the next five years. Our outlook for developed market foreign equities is similar and for emerging-markets equities is slightly higher across all scenarios.

"Recognize reality even when you don't like it. Especially when you don't like it."

~ Charlie Munger

We believe risks are relatively high, but we can't predict timing. We can easily imagine good returns in 2010 if the economy continues to grow, low rates encourage risk taking, and there is no catalyst to cause risk aversion.

We never want to be complacent in our assumptions. We constantly test and challenge our own thinking, and look for new ways to analyze issues.

Many of the fund managers we use report finding good opportunities, and there is some evidence that environments where overall market returns are low but individual company returns vary widely are favorable for active managers. We believe we could see such an environment.

Among other asset classes, emerging-markets local-currency bonds remain a compelling opportunity, while high-yield's appeal has diminished and we could be close to unwinding those positions.

As we think about the equity markets, we also think about the potential for active managers to outperform, and we put some credence in the bottom-up views and analysis we hear from the fund managers we respect (especially those who are not "perma-bulls"). A number of relatively conservative value-driven fund managers we talk to (e.g., the teams at Longleaf, Artisan Value, Osterweis, and Fairholme, to name a few) are quite bullish about the individual equity opportunities right now. Others, such as John Hussman (Hussman Strategic Growth) and the FPA team, are less so. However, they are still able to find good investments; and, since they run relatively concentrated portfolios they don't need to find a whole lot of them. We have also seen arguments from credible research firms regarding the potential for active managers to significantly outperform passive indexes in lackluster return environments, especially when there is relatively low correlation between individual market returns.

THE PORTFOLIO VIEW

At a portfolio level we think about the risk thresholds we target for each portfolio type, and we stress test the portfolios under severe bear-market assumptions with that in mind. As we think about portfolios today, there are several things we're cognizant of:

- the high range of returns going from our worst-case to base-case scenario
- the fact that in most of the scenarios we look at, stock market returns are not compelling
- the reality that expected returns generally are not exciting, and also that no single asset class is offering a tempting opportunity. Emerging-markets local-currency bonds are the most attractive asset class, but even there we're looking at the likelihood of single-digit returns
- our belief that systemic risks remain quite high
- the fact that there is an optimistic case to consider amongst all the negatives

This all nets out to a portfolio posture in which the risk we're willing to take is below the risk of the benchmark in all of our balanced portfolios. Since no asset class looks like a home run (or even an extra base hit) in

the majority of scenarios, the odds of missing out by being conservative doesn't appear very high. Or, put another way, we don't believe we are likely to be paid much over the next few years to take risk, so below-average risk exposure is sensible.

The risk reduction comes from an underweight to equities, and within the equity portfolio, an underweight to small-cap stocks. That underweight is partly offset by a more aggressive fixed-income portfolio. Also, a significant portion of the equity underweight is invested in emerging-markets bonds and high-yield bonds. We view these asset classes as less risky than equities, but materially more risky than investment-grade bonds.

We tend to think of our tactical weightings in 5% increments. At present, our balanced portfolios are a little more than two increments underweighted to equity risk (which we calculate by taking our actual equity fund underweighting and then partially adjusting it upward for our high-yield and emerging-markets bond positions).

FINAL THOUGHTS

As we embark on this new decade, despite a far-less-than-rosy outlook, we also allow ourselves some optimism for two reasons. First, we believe our investment philosophy and process is particularly well suited to an environment that could be volatile. We believe this because of 1) our willingness to cast a wide net as we consider traditional but also somewhat untraditional asset classes/investment opportunities (emerging-markets local-currency bonds, short-term high-yield bonds, etc.) and 2) because we are willing to position portfolios significantly differently from our benchmarks if our research clearly suggests that is the smart thing to do.

As always, if you have any questions on how your portfolio is positioned or if you would like to discuss your investments in more detail, we welcome you to contact us to review by telephone or schedule a time to stop in. As always, we appreciate your continued confidence and trust.

WE ARE CURRENTLY USING FLEXIBLE FIXED-INCOME STRATEGIES

Eighteen months ago there were many table-pounding opportunities in the fixed-income market as everything outside of the government-backed market was in the bargain bin.

Since that time every fixed-income sector except for government bonds has rung up big returns and that has been one of the key drivers of our strong performance. In total, our fixed-income funds added significant value last year versus the Barclays Aggregate Index.

Now, however, the opportunities are not so compelling. So for the most part we hold funds that have a high degree of flexibility. The focus of these funds varies—several will take some non-U.S. bond exposure if it is compelling, they will take some corporate bond and non-agency mortgage exposure, they may manage their duration (maturity strategy) more flexibly, or they may have expertise in a specific slice of the market.

Overall we believe our fixed-income exposure will be subject to materially less inflation/rising interest rate risk than the overall bond market. It also gives us some defensive ballast, though less in the double-dip recession scenario than the overall bond market. That is the compromise, but we make up for that in other ways at the portfolio level.

FORGO JOINT ACCOUNTS WITH ADULT CHILDREN

If you'd like help paying your bills, naming your grown son or daughter as a joint owner of your bank or investment accounts may seem like the way to go. And upon your death, the joint account bypasses probate. But the risks of joint ownership generally outweigh the advantages.

The person you name as joint owner has complete access to all the assets in the account even if you make all the contributions. This could create a temptation for an adult child who is struggling financially.

As a real life example a client named his son joint owner of his brokerage account, which held a total of $1.4 million in January 2008. The son day-traded the money, and by late 2009 the value had dropped to $4,000.

Joint ownership also exposes your account to your child's creditors. If your child falls behind on credit-card payments, is sued, gets divorced or neglects to pay taxes, the account assets could be frozen or taken.

Another risk exists for parents with more than one child. When you die, 100% of the money in the account will go to the child you name as joint owner—regardless of what you state in your will.

Michael Witzke, an estate-planning lawyer in Bloomfield Hills, Mich., is representing one of two siblings who have sued their brother, claiming he refused to give them their share of their late mother's bank account. The mother had named her son as joint owner, but stated in her trust document that she wanted her assets divided equally. "The joint ownership can be disputed, but that leads to legal fees and family conflicts," says Witzke.

Your best alternative to a joint account is to name a trusted child as your agent with durable power of attorney. Also, you can set up your accounts with a "payable on death" or "transfer on death" option. This will ensure that your account assets go directly to the children you name without a delay caused by probate.

RETIREMENT INCOME PLANNING AND VARIABLE ANNUITIES

Variable annuities with living benefit riders can be valuable to retirees as a part of their overall retirement income plan.

Investors are living longer than ever before; yet, there has never been more uncertainty regarding the future of what have traditionally been regarded as guaranteed sources of income, such as traditional defined-benefit pension plans and Social Security. The change from defined-benefit pensions to defined-contribution plans that has taken place shifts the responsibility of providing a lifetime income stream from employers to individuals. As a result, many retirees face three related risks that threaten their financial well-being in retirement:

1. **Longevity risk**—the risk of outliving one's savings and facing financial ruin.
2. **Investment performance risk**—the risk that bad investment performance, especially early in retirement, will reduce the value of the investor's portfolio.
3. **Inflation risk**—the risk that the value of assets or income will decrease as inflation shrinks the purchasing power of a currency.

The fear of outliving one's assets drives some investors to adopt unnecessarily frugal lifestyles; while at the other end of the spectrum, some investors will spend too much, depleting their savings early in their retirement years. Most investors can avoid these extreme outcomes through a proper combination of traditional investment products; such as mutual funds, and insurance products that offer a guaranteed income stream for life, such as a ***variable annuity with lifetime living benefit guarantees.*** A large number of innovations have taken place in the development of insurance products that enable today's retirees to help mitigate these risks and build a more secure retirement. One that is receiving a lot of attention is the Variable Annuity with a Living Benefit Rider.

WHAT IS A VARIABLE ANNUITY?

A variable annuity is a contract between you and an insurance company, under which the insurer agrees to make periodic payments to you, beginning either immediately or at some future date. You purchase a variable annuity contract by making either a single purchase payment or a series of purchase payments. Although variable annuities are typically invested in mutual funds, variable annuities differ from mutual funds in several important ways:

First, variable annuities let you receive **periodic payments** for the rest of your life (or the life of your spouse or any other person you designate). This feature offers protection against the possibility that, after you retire, you will outlive your assets.

Second, variable annuities have a **death benefit.** If you die before the insurer has started making payments to you, your beneficiary is guaranteed to receive a specified amount—typically at least the amount of your purchase payments.

Third, variable annuities are **tax-deferred.** That means you pay no taxes on the income and investment gains from your annuity until you withdraw your money.

A **Living Benefit** is an optional benefit rider that is available for an additional fee within some variable annuities. Living benefit riders help increase and protect your retirement income by guaranteeing a certain level of income for your life, and in some cases, the life of your spouse as well.

The underlying characteristics of Living Benefit options vary slightly among variable annuity companies. The option most commonly referred to as GMWB (Guaranteed Minimum Withdrawal Benefit) helps protect and increase your "Protected Withdrawal Value," one of the figures that determine your income payments for the rest of your life. The Protected Withdrawal Value is a separate value from your Annuity's Account Value (contract value) and is only available through withdrawals, not as a lump sum to be cashed out. The Protected Withdrawal Value increases every year even if the Account Value declines.

Depending on your age when you first begin lifetime withdrawals from the annuity, you'll receive 4%, 5%, or 6% of the greater of your Protected Withdrawal Value or Annuity's Account Value annually. That income is guaranteed to last for as long as you live (and potentially your spouse), even if your Annuity Account Value falls to zero. All guarantees, including optional benefits, are backed by the claims paying ability of the issuing company and do not apply to the underlying investment options.

Variable annuities with living benefit riders can be valuable to retirees as a part of their overall retirement income plan.

We at Waterford Advisors have spent a considerable amount of time analyzing how these products can be a valuable complement to a client's traditional retirement portfolio and how they can be used to assist in managing retirement income. If you'd like additional information or to discuss these products further, we're available to assist you.

SOCIAL SECURITY BENEFITS

Considering the relatively scanty payout, Social Security benefits have become like a bad joke in the retirement world.

Still, in the face of a horrific recession, many retirees are jumping on the bandwagon and filing for benefits as soon as they blow out their 62nd birthday candles. As a matter of fact, applications for retirement benefits have skyrocketed by 23% this year. Some estimates show that the Social Security Administration will have to dole out more money than it collects over the next two years.

Of course, the amount of money you receive from Social Security is based on a number of factors, including how much income you earned throughout your working years, the year you were born and the age at which you file for benefits. Many seniors assume that it's inevitable they'll receive a measly payout no matter what, so they go ahead and claim their benefits while the getting's good. But if you play your Social Security cards right, you could end up bringing home a heck of a lot more dough.

Here are five clever tips and tricks for stretching your Social Security dollar as far as possible.

GO AHEAD AND PROCRASTINATE

Procrastination has earned a bad rap in our society, but when it comes to filing for Social Security, dragging your feet can be a good thing. As you probably know by now, you can claim Social Security any time between the ages of 62 to 70, but the longer you wait, the fatter your monthly benefit will be.

If you choose to claim Social Security early, your benefits will be reduced by a fraction of a percent for each month before your full retirement age. A "fraction" may not sound like much, but it can add up quickly if you file five or six years before your retirement age. For example, if you were born in 1955, your full retirement age is 66 years and two months, according to the Social Security Administration. If you file for Social Security at the age of 62, your retirement benefit will be reduced to only 74% of the full retirement age benefit. To add insult to injury, your spouse's benefit will be reduced by 30.83%.

In other words, good things come to those who wait. If there's any way you can wait to file for Social Security, whether that means working longer or living off of other retirement funds, you should do it.

WAIT EVEN LONGER

It's hard enough to wait until your full retirement age to file for Social Security but it's even more challenging to put it off until your 70th birthday. However, the reward may be well worth the wait. That's because those who wait until 70 to file for Social Security score a bonus amount. For each year you delay claiming from your full retirement age to the age of 70, your benefit amount will rise by an extra 7 to 8%. Therefore, if your full retirement age is 66, you could earn up to 32% more if you put off filing until 70.

In some scenarios, you could even double your Social Security payments if you wait until your 70th birthday.

KEEP ON TRUCKING AT YOUR JOB

There are countless financial advantages to working longer. Not only will you bring in more income and beef up your nest egg, but you'll also hike up your Social Security benefits.

That's because your Social Security payments are calculated by your 35 highest earning years. So if you continue bringing home that higher salary well into your 50s and 60s, you'll essentially nullify some of those low earning years when you were a rookie 20-something. This is precisely why financial experts encourage seniors to continue working for as long as possible.

MARRIED COUPLES

Husbands and wives have a few extra tricks up their sleeves when it comes to maxing out their Social Security benefits. That's because married folks can choose to receive Social Security benefits based on their own income or they can opt to receive a payout worth 50% of their spouse's benefit. Talk about wedded bliss.

If you're married and really want to make the most of Social Security, some financial experts recommend that the lower earner file for benefits at the age of 62. Then the main breadwinner can wait until the age of 70 (or as late as possible) to earn the higher benefit amount. That means you can start that income stream today but earn even more tomorrow.

CORRECT YOUR EARLY FILING SLIP-UP

Let's say you filed for Social Security at the age of 62, and you're kicking yourself for not waiting longer for the higher benefit. No biggie. Believe it or not, you actually have a second chance. You can simply file Social Security Form 521, the "request for withdrawal of application."

By submitting this form, you're essentially coming out of retirement. Of course, there's a catch. You'll have to pay back all the Social Security benefits you've received thus far. If you can afford to do that, it's well worth the effort and expense. Once you file the form, you can wait and reapply for Social Security when you're older to receive the higher benefit.

(See Social Security Eligibility chart on page 8.)

If you wish to be removed from our mailing list or if you have friends, family, or colleagues you think would benefit from our newsletter, please email us at eml@waterfordadv.com or send a fax to 716-580-3913.

As always, we welcome your comments or questions, and we invite you to share our newsletters with friends and acquaintances.

SOCIAL SECURITY ELIGIBILITY: AGES FOR FULL RETIREMENT BENEFITS, AND REDUCTIONS AND CREDITS FOR EARLY AND DELAYED BENEFITS

Year of Birth	Year Individual Turns 62	Full Retirement Age (FRA)	Per Month Reduction if Benefits Begin Prior to Full Retirement Age	Age 62 Benefits as % of FRA Benefits	Per Year Delayed Retirement Credit	Age 70 Benefits as % of FRA Benefits
1936 or prior	1998 or prior	65	5/9%	80%	6%	130%
1937	1999	65	5/9%	80%	6.50%	132.50%
1938	2000	65 and 2 months	5/9% for 36 mos. + 5/12%/mo.**	79.17%	6.50%	131.42%
1939	2001	65 and 4 months	5/9% for 36 mos.+ 5/12%/mo.**	78.33%	7%	132.67%
1940	2002	65 and 6 months	5/9% for 36 mos. + 5/12%/mo.**	77.50%	7%	131.50%
1941	2003	65 and 8 months	5/9% for 36. mos. + 5/12%/mo.**	76.67%	7.50%	132.50%
1942	2004	65 and 10 months	5/9% for 36 mos. + 5/12%/mo.**	75.83%	7.50%	131.25%
1943-1954	2005-2016	66	5/9% for 36 mos. + 5/12%/mo.**	75%	8%	132%
1955	2017	66 and 2 months	5/9% for 36 mos. + 5/12%/mo.**	74.17%	8%	130.67%
1956	2018	66 and 4 months	5/9% for 36 mos. + 5/12%/mo.**	73.33%	8%	129.33%
1957	2019	66 and 6 months	5/9% for 36 mos. + 5/12%/mo.**	72.50%	8%	128%
1958	2020	66 and 8 months	5/9% for 36 mos, + 5/12%/mo.**	71.67%	8%	126.67%
1959	2021	66 and 10 months	5/9% for 36 mos. + 5/12%/mo.**	70.83%	8%	125.33%
1960 or later	2022 or later	67	5/9% for 36 mos. + 5/12%/mo.**	70%	8%	124%

*Social Security considers people born on January 1 to have been born in the prior year.

**The monthly reduction is 5/9% for the first 36 months prior to Full Retirement Age, and 5/12% for every month after the first 36 months.

Source: Jennings and Reichenstein (2001)."Estimating the Value of Social Security Retirement Benefits." Journal of Wealth Management (Winter):14-29.

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