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OUR NEWS LETTER

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The average person would pay $9 more for commercial-free cable

Ethan Wolff-Mann Yahoo Finance July 28, 2017

Comcast and AMC, like Hulu before it, will be letting its customers decide whether to go with a standard version of the channel or a premium version without commercials, at a price of $5 per month more.

That $5 will buy customers more than just a standard channel, commercial free. It has more in common with Showtime and HBO, which has somewhat standardized the on-demand premium television experience.

Customers have been willing to do this for Hulu, paying $11.99 per month to avoid commercials instead of the minimum $7.99 per month, but they may not do this when it comes to cable.

In a survey, 77% of the 750 Yahoo Finance readers who responded said they would not pay $5 more per month to avoid commercials on a single channel they like, AMC for example.

One likely reason is that AMC is already associated as a cable channel, something you already pay for, and that add-on services like Netflix and Hulu are just that—extra services one expects to pay for.

Ditching the ad-supported model

The cost of ditching an ad-supported model or a model that is partially ad-supported is challenging, especially given how challenging it is to get people to pay for things. But unlike online media like newspapers, television and its modern supplements—Netflix, Hulu, Amazon Prime Video, and more—have been accepted. People are willing to pay for them, making the ad-free, subscription model tenable.

In the end, of course, it all depends what a consumer is willing to pay. Surveyed on how much they would pay to get rid of commercials on cable, Yahoo Finance readers would pay an average price of $9.41 to avoid commercials. However, this average was skewed by a considerable number of people who said they would be willing to dispatch with ads for $100 per month.

Considering the fact that average person spends four years of their life watching commercials, this actually comes out to be a really incredible deal. $1,200 for an extra year of your life, maximum of four per customer.

The median Yahoo Finance reader would pay $5 per month to avoid commercials on all television, which is around one-fiftieth of what Comcast and AMC are offering with their single channel, if you have a 50-channel extended basic cable package.

So what does this mean for a commercial-free future? Outlook is not so good. If extreme gap between what people would pay ($5 for no commercials) and what a cable company suggests ($5 for no commercials on AMC) is anything to go by, commercials aren't going anywhere.

What Is the Maximum Social Security Spousal Benefit?

Spousal benefits can be pretty big. How much will yours be?

Matthew Frankel (TMFMathGuy) Sep 5, 2016

This article was updated on July 6, 2017 and was originally published on September 5, 2016.

Thanks to Social Security spousal benefits, you could be entitled to collect inflation-adjusted income for the rest of your life, even if you never worked or didn't work consistently throughout your career. There's a provision in the Social Security rules that says if your husband or wife's retirement benefit is more than twice what yours would be, a spousal benefit will make up the difference. If you've never heard of spousal benefits, then you may be surprised at how large they can be.

What is a spousal benefit?

In a nutshell, spousal benefits are intended to provide retirement income to Americans who have earned significantly less than their spouses. For example, if one spouse worked full-time for their entire career while the other stayed home to raise children, then a spousal benefit could provide income to the former stay-at-home parent.

Whether or not you're eligible for a spousal benefit depends on the difference between your spouse's benefits and your own (if you're eligible for your own benefits).

When deciding whether you're eligible for spousal benefits, the Social Security Administration first considers your own benefit. In order to determine your benefit amount, the SSA takes the average income of your 35 highest-earning years (indexed for inflation) and plugs them into a formula. This formula determines your primary insurance amount, which is the monthly benefit you're entitled to receive if you claim Social Security at your full retirement age. Your benefit will be adjusted if you apply for Social Security before or after your full retirement age.

Next, Social Security determines your spousal benefit, which is typically one-half of your spouse's benefit if you claim at your full retirement age. Your monthly benefit amount will be the greater of your own benefit or your spousal benefit. If your spousal benefit is greater, then the SSA pays out your own benefit first and *then* pays the amount it would take to reach your full spousal benefit. For example, if you're entitled to a $400 benefit based on your record and a $500 spousal benefit, then you will be paid your own $400 benefit plus $100 in spousal benefits.

You can collect a spousal benefit as early as age 62, just like a standard Social Security retirement benefit, but it will be reduced by a certain percentage for each month you collect benefits before your full retirement age. It's important to note that spousal benefits are not reduced at the same rate as retirement benefits. Furthermore, there is no delayed-retirement credit for waiting past your full retirement age to claim spousal benefits.

Retirement Benefits

Spousal Benefits

Reduction per month before full retirement age, up to 36 months

5/9 of 1% (0.56%)

25/36 of 1% (0.69%)

Reduction percentage per month beyond 36 months early

5/12 of 1% (0.42%)

5/12 of 1% (0.42%)

Monthly delayed retirement credit (increase) for claiming later than full retirement age, up to age 70

2/3 of 1% (0.67%)

N/A

Source: Social Security Administration.

In the past, you could choose to apply for either your spousal benefit *or* your own retirement benefit, and you could switch from one to the other later on. However, this strategy was eliminated in April 2016. Thanks to a rule known as "deemed filing," if you were born on or after Jan. 2, 1954, then once you apply for one type of benefit, you're deemed to have applied for them all. If you were born before that date and you have reached your full retirement age, then you may choose to collect your spousal benefit, let your own retirement benefit continue to grow, and then claim your enhanced benefit later.

Also keep in mind that in order for you to claim a spousal benefit, your spouse must also be collecting his or her own Social Security retirement or disability benefit.

How big can a spousal benefit be?

The maximum Social Security benefit for someone retiring in 2017 is $3,538 per month, but this assumes he or she delayed retirement until age 70. Since spousal benefits are based on the primary earner's benefit at full retirement age, the maximum spousal benefit is based on the highest Social Security retirement benefit at age 66, which is currently $2,687.

Therefore, the maximum possible spousal benefit in 2017 is $1,343.50 per month -- half of the maximum benefit for an individual. However, in order to get the maximum spousal benefit, you and your spouse must meet these criteria:

- Your spouse must have earned more than the Social Security maximum taxable wage limit for at least 35 years of his or her career.
- Your spouse must be receiving his or her own benefit already.
- You must wait until your full retirement age to file for benefits.

For the vast majority of people, spousal benefits are significantly less than the maximum. As of May 2017, there are about 2.4 million individuals collecting a spousal benefit, and their average monthly check is about $712.

How you can maximize your own spousal benefit

Since there are no delayed retirement credits for spousal benefits, the strategies to maximize your spousal benefit are somewhat limited. However, here are a few pieces of advice that could help you get the most out of Social Security.

- **Check your own retirement benefit** -- Even if you didn't work many years, or if you only worked part-time, you may be surprised at how much your own retirement benefit is. Social Security benefits are weighted toward lower-income retirees, so even if your spouse earned several times what you did throughout his or her career, your own benefit may be more than half of your spouse's. You also have the ability to grow your own

benefit by delaying retirement -- an option that doesn't exist for spousal benefits. Create an account on the Social Security website and view your Social Security statement to see how large your own benefit could be.

- **Delay retirement** -- If your spouse is doing particularly well later in his or her career, delaying retirement for a year or two could significantly boost your spousal benefit, as long as you haven't reached your full retirement age. Keep in mind that since Social Security benefits are based on the top 35 years of earnings, adding a couple of high-income years can erase the effect of any low-income years on an earnings record.
- **Ask your spouse to file for benefits by 66** -- While your spouse's benefit will continue to grow until age 70, your benefit as a spouse will not. Mathematically, it doesn't usually make sense for your spouse to delay his or her Social Security beyond *your* full retirement age (66 for people retiring now).

To sum it up, spousal benefits can be a significant boost to the retirement income of married couples, so it's important to know what they are and how to get the most out of yours. While Congress recently killed the most lucrative Social Security strategies for couples, there are still some techniques to maximize income for you and your spouse.

The $16,122 Social Security bonus most retirees completely overlook

If you're like most Americans, you're a few years (or more) behind on your retirement savings. But a handful of little-known "Social Security secrets" could help ensure a boost in your retirement income. For example: one easy trick could pay you as much as $16,122 more... each year! Once you learn how to maximize your Social Security benefits, we think you could retire confidently with the peace of mind we're all after.

Will You Pay Taxes on Your Social Security Benefits?

Social Security is taxed differently than other income, if at all. Here's what you need to know.

Matthew Frankel

Retirement income, including Social Security, is treated differently than wage and investment income for tax purposes. The IRS has its own criteria for taxation of Social Security benefits, and 13 states do as well. Here's an overview of the income tax you may have to pay on your Social Security benefits, and what it could mean to you as a retiree.

Social Security taxes at the federal level
In general, you'll only have to pay federal income taxes on your Social Security benefits if you have a substantial amount of income from other sources, such as wages from a job, income from a business you own, or investment/dividend income.

When determining how much of your Social Security income may be subject to income tax, the IRS uses your "combined income," which consists of your adjusted gross income (AGI), nontaxable interest, and half of your Social Security benefits

For individual (single) tax filers, if your combined income is between $25,000 and $34,000, 50% of your Social Security benefits may be subject to income tax. If your combined income is more than $34,000, up to 85% of your benefits could be taxable.

For joint filers, the income thresholds increase to a range of $32,000 to $44,000 for 50% taxation, and $44,000 and above for 85% taxation. Under no circumstances is more than 85% of your Social Security benefit subject to taxation, no matter how much income you have.

Finally, it's important to note that these income thresholds are current as of the 2015 tax year (the return you file in 2016), and may change for 2016 or subsequent years. However, they aren't indexed to inflation, and they haven't changed since they were initially introduced into legislation.

13 states tax Social Security benefits
In addition to the federal taxes you may have to pay on Social Security benefits, there are 13 states that also tax Social Security. However, the exemptions vary considerably from state to state, so here's a rundown of which states tax benefits, and who has to pay.

who has to pay.

State

Social Security taxation

Colorado

The first $20,000 (under 65) or $24,000 (65+) of total retirement income is not taxed.

Connecticut

Benefits are exempt for taxpayers with AGI below $50,000 (single) or $60,000 (married filing jointly).

Kansas

Benefits are exempt for individuals with AGI below $75,000

Minnesota

Benefits are taxable in the same way as the federal level.

Missouri

Benefits are not taxed for AGI under $85,000 (singles) or $100,000 (married), and there is a partial exemption for incomes above this level.

Montana

Montana doesn't tax Social Security benefits for incomes of less than $25,000 (single) and $32,000 (married). However, Montana's income calculation can be different than AGI, so you need to fill out Worksheet VIII of the state's tax return to determine your exemption.

Nebraska

Benefits are taxable in the same way as the federal level.

New Mexico

New Mexico has an overall retirement income exemption of $8,000 per person, subject to income restrictions.

North Dakota

Benefits are taxable in the same way as the federal level.

Rhode Island

Starting in 2016, Social Security benefits are exempt for taxpayers with AGI less than $80,000 (single) and $100,000 (married).

Utah

Benefits are taxable, but individuals can qualify for a retirement income tax credit of up to $450 per person, depending on age and income.

Vermont

Benefits are taxable in the same way as the federal level.

West Virginia

Benefits are taxable in the same way as the federal level.

What it could mean to you

As you can imagine, the amount of income tax you'll have to pay can vary tremendously based on the amount of your Social Security benefits, your other income, and the state you live in.

A retired couple whose only source of income is $30,000 in Social Security wouldn't have to pay taxes at all, but a couple with $30,000 in SS income and $100,000 in AGI who resides in Connecticut would have to pay federal income tax at their marginal tax rate on 85% of their SS income as well as state income taxes.

Consider the big picture

As a final thought, it's important to keep in mind that taxes on Social Security benefits are just one piece of the puzzle. Some states that tax Social Security benefits are actually pretty tax-friendly places to retire, such as Colorado. And, some states that don't tax Social Security at all, like New York and New Jersey, are still among the most taxing places to live. So, be sure to consider the big picture when it comes to the taxes you could face in retirement.

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How Depreciation Works on a Rental Property

Kevin Michels, CFP® August 10, 2017

The ability to depreciate a rental property is one of the many attractive benefits of owning rental real estate. The depreciation deduction reduces the rental income subject to taxation which increases the after-tax rate of return on the rental property. Think of the depreciation deduction as an annual allowance for the wear, tear and deterioration of a rental property. The IRS provides a uniform way to deduct that wear, tear, and deterioration from the rental income received each year.

For example: Assume you complete a cash purchase of a $200,000 investment property that you will rent. You're able to rent the property for $15,000 per year. Your expenses include some routine maintenance and repair, a monthly HOA fee, property taxes, and a few other miscellaneous expenses for a total of $4,000 of expenses your first year. In this scenario your net income would be $11,000, which is the difference between your rental income ($15,000) and your expenses ($4,000). (For more, see: *An Introduction to Depreciation*.)

In addition to the deductible expenses associated with operating your rental property, the IRS allows you to take a depreciation deduction to further offset your taxable income. Calculate your depreciation deduction as follows:

Step 1: Determine Your Adjusted Cost Basis in the Property

Your cost basis is simply the original value of the property, or how much you paid for it. Include in that value any commissions or fees you paid to acquire the property. In addition, you can add to the cost basis any cost paid to make improvements to the property. Each year your rental property is in service you will decrease your adjusted cost basis by your depreciation deduction.

Continuing with the same example above, let's assume your cost basis is $200,000 since you paid $200,000 for the property and no improvements were needed.

Step 2: Separate Your Adjusted Cost Basis Between the Land and Building

Since land is not considered a depreciable asset, you will only be able to depreciate the building. If you don't know the value that should be attributed to the land and building you can base the values on the most recent real estate tax assessment. In our example we'll assume the building is worth $160,000 and the land is worth $40,000. (For more, see: *Tax Deductions For Rental Property Owners.)*

Step 3: Divide Your Adjusted Basis By 27.5 to Figure Annual Depreciation

The IRS stipulates that you can depreciate your rental property over 27.5 years. For every full year a property is in service you can take your full depreciation deduction. Once your adjusted basis is depleted you can no longer depreciate your property.

Since we can only depreciate the building our annual depreciation deduction would total $5,818 - calculated by dividing the basis in the building ($160,000) by 27.5. Our $11,000 of taxable income is now reduced down to $5,182. Assuming a 25% federal tax rate the final tax liability on your rental income will be $1,296 ($5,182 taxable income x 25%).

The rate of return for the first year you place your rental property in service would be 4.8% ($9,704 of after-tax income/$200,000 initial investment). Each year you can take your depreciation deduction until you have completely exhausted the entire basis in your rental property.

However, it's important to keep in mind that while depreciation helps reduce current taxable income, it also increases your capital gain if and when you decide to sell your rental property. When you sell your rental property you will be taxed on the entire gain associated from the sale which is calculated by subtracting your adjusted basis from the sale price of the home. Since depreciation decreases your adjusted basis in the property, the gain generated by the sale increases.

Continuing with the prior example, let's assume you rent out your property for 10 years and then decide to sell. At this point you've taken $58,180 in depreciation ($5,818 annual depreciation x 10 years) and your adjusted basis is now $141,820. In those ten years the fair market value of your property has increased to $270,000 which is what you sell it for. Your capital gain is $128,180 ($270,000 sale price - $141,820 adjusted basis).

Depreciation recapture stipulates that all gain attributed to depreciation is taxed at a flat 25%. In this case, that would generate a tax bill of $14,545 ($58,180 of total depreciation x 25%). The rest of the gain is taxed using the capital gains rate. We'll assume in this case it is taxed at a 15% rate. The capital gains tax liability will be $10,500 ($70,000 capital gain x 15%). The total tax liability on the sale of the property will be $25,045.

The Bottom Line

Depreciation works for your benefit while you are renting out your property. It reduces your taxable income and overall tax liability. However, because you must decrease your basis each year by the amount of depreciation you take, you will most likely be hit with a pretty large tax bill if and when you decide to sell your rental property.

4 Ways to Find Your Retirement Number

Do you know your "retirement number?" If not, you're risking running out of money after you retire.

Wendy Connick (imwconn) Aug 24, 2017

Before you can start saving for retirement, you've got to figure out how much you'll need to save. Finding your "retirement number" can be as simple or as complicated as you want to make it, with the caveat that more complicated plans are likely to produce the most accurate retirement number. However, even a simple "off the rack" plan will get you enough information to build a solid retirement savings strategy. Here are some of the most popular approaches for coming up with your retirement number.

Super simple: Save 15% of your income

If your retirement plan consists of sticking 15% of your income into a retirement savings account and investing the money with an appropriate allocation between stocks and bonds, you are quite likely to end up with plenty of retirement income. The beauty of this plan is that there's no need to do any calculating at all if you have a 401(k) plan; just set your contribution level to 15% and you're done. If you have an IRA you can multiply your paycheck by 0.15 to figure out how much you'll need to contribute for each pay period, then set up the transfer.

Fairly simple: save $1 million

One million dollars is a nice round number, and even with inflation it should be enough to provide you with a comfortable retirement. There's a bit of calculation involved in figuring out how much you'll need to contribute each month to hit $1 million by your planned retirement date, but luckily, a retirement calculator can do the math for you. When filling in the calculator fields, it's a good idea to keep your expected returns on the low side – no more than 7%. This will cause you to err on the side of saving more instead of less and result in a nice healthy balance even if the market performs poorly overall.

A bit more complex: Aim for 80% of your current income in retirement

Most retirees find that their total expenses decline during retirement (with the notable exception of healthcare expenses), so if you can save enough to generate roughly 80% of your current income every year during retirement, you should be able to get by. However, 80% of current income will only work if you plan a fairly low-key retirement. This figure also assumes that you have little to no debt, including a house that you own and that's completely paid off.

If you want to spend more in retirement or you expect to have substantial debt, increase this number to 90% or even 100%. It's wise to make a list of your planned retirement activities and do at least a rough estimate of your expenses, so that you'll end up with a reasonable number. Whichever percentage you settle on, you can use a retirement calculator to figure out how much to contribute in order to hit your goal.

Most complex: Calculate retirement expenses to determine income requirements

If you want to get a truly accurate picture of how much you'll need to save for retirement, the way to do so is to envision your future self's lifestyle and activities during retirement, add up expenses for everything you'll need for that lifestyle, and use this figure to calculate your minimum income requirement. When calculating expenses, you can start with your current expenses and subtract anything that will no longer be necessary.

For example, if you're sure that your house will be paid off by the time you retire, you can subtract your mortgage payment – but remember, you'll still have to pay property taxes. Once you have a total for your monthly expenses in retirement, multiply that number by 110% to come up with your minimum income requirement. Adding the extra 10% gives you a bit of a cushion in case there are expenses that you forgot or that turn out to be larger than you anticipated. Then take that income number and plug it into the same retirement calculator from the above section.

Which system is right for you?

The best retirement savings plan is the one that you'll actually follow. If you don't have the time or patience to sit down and add up a bunch of expenses, don't even try – just start with one of the simpler plans. The most important part of saving for retirement is getting started early, so anything that makes saving easier will help you enormously in the end. After all, you can always switch to one of the more complex calculation methods later on, when you have a better idea of what you want your retirement to be like.

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If you're like most Americans, you're a few years (or more) behind on your retirement savings. But a handful of little-known "Social Security secrets" could help ensure a boost in your retirement income. For example: one easy trick could pay you as much as $16,122 more... each year! Once you learn how to maximize your Social Security benefits, we think you could retire confidently with the peace of mind we're all after. Simply click here to discover how to learn more about these strategies.

3 Ways to Get Around RMDs

Are required minimum distributions (and the resulting tax bills) getting you down? Try one of these tricks to minimize your RMDs.

Wendy Connick Sep 3, 2017

Required minimum distributions are many a retiree's bugaboo. RMDs force retirees to withdraw a certain amount of money from their tax-deferred retirement savings accounts, whether they need that much money or not, often generating high income taxes for the year. Luckily, there are a few ways to minimize your RMDs -- or even get around them entirely.

How RMDs work

Tax-deferred retirement savings accounts, such as traditional IRAs, allow you to contribute money tax-free, but they require you to pay taxes on the money you take out of the account. Without RMDs, a retiree could just leave the money in the account forever, and then their beneficiary could continue to hold the funds until their own retirement came around, resulting in enormous tax-free growth on the account's investments. But the IRS doesn't want you to get *that* much of a tax benefit, so starting at age 70-1/2, retirees must take distributions from their 401(k)s and traditional IRAs based on the IRS' actuarial tables.

Qualified charitable distribution

If you plan to give money to charity anyway, why not do it in a way that will cut your tax bill? A qualified charitable distribution is a transfer of funds from your IRA directly to a qualified charity (which would be any charity that qualifies for the charitable deduction). You can transfer up to $100,000 per year in this fashion. Qualified charitable distributions count toward your RMD limit for the year, but because the money is going to a charity, you don't have to pay income taxes on it. This is an excellent option for retirees who don't need as much money as the RMD requires them to take; they can donate the amount they don't need and avoid the extra income taxes on that money.

Qualified longevity annuity contract (QLAC)

Annuities can be an excellent financial tool for many retirees. An annuity ensures that you won't run out of money, because the payments keep coming for as long as you live. A deferred annuity, in which you give your money to the insurance company but don't start getting payments until a predetermined date, can make your payment stretch a lot further: The longer you wait to start getting payments, the bigger those payments will be relative to your investment.

If you use IRA funds to buy a deferred annuity, they will still be factored into your RMD calculation, even though the money will be locked up by the insurance company. In other words, your RMD won't drop despite the fact that you've reduced the amount of money in the account.

The QLAC rules were designed to get around this catch-22. In brief, up to 25% of your IRA balance can be locked up in an annuity, and the proposed annuity payments will count toward your RMD for the year -- even if the payments haven't started coming yet.

The danger of a QLAC is that if you choose a long deferral period, you might not live long enough to break even on your investment. You'll also lose out on the gains that money could have earned if left invested in your IRA.

A QLAC can still make sense as a source of guaranteed income, but be sure to crunch the numbers carefully to confirm you're getting a good deal.

Roth IRA

Having a large chunk of your money in a Roth IRA, rather than a traditional IRA, can save you a bundle on RMDs. When you calculate your RMD for the year, you only need to consider the money in tax-deferred accounts and employer-sponsored accounts such as 401(k)s; anything in a Roth IRA doesn't count. Thus, if your retirement savings are split 50-50 between traditional and Roth IRAs, your RMDs will be half the size they'd be if you had all of your money in a traditional IRA.

If you don't have a Roth IRA, it's never too late to do a conversion and move some of your money to a Roth account. However, when you make such a conversion, you'll be required to pay taxes on the money you're rolling over to the Roth account, so before you commit, do the math and confirm that you can afford the resulting tax bill. If those taxes are excessive, you can always spread the conversion out over several years to reduce the tax costs for any given year. And if you manage to move *all* of your money into Roth accounts, you can say farewell to RMDs for good.

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