

# tax & investment newsletter

May 2009

MONTGOMERY TAYLOR, CPA, CFP

**It would be nice if we could all pay our taxes with a smile,  
but normally cash is required. Anonymous**

## Monty's Opening Thoughts...

Tax season was interesting this year. We had a few glitches – as usual. For instance, my computer died one day and I had to have it replaced. But I was back up and running in about four hours! There were many days I worked 15 hours—see the picture below to see how I ended the season. Even with this down economy, our tax practice grew—adding more happy clients to the list. By the way, if you know of someone who has not filed yet – please pass on my name and phone number and we'll be glad to relieve them of their IRS filing headache by doing the returns for them. Thank you for all the referrals!



We've also experienced a surge in new investment clients—where we manage their investments for them. With the market in the tank, people are questioning their past investment strategy. In many cases, they're telling me that their prior investment advisor just stood by and watched while their portfolio dropped 30 – 40% in the last 12 months. On page seven, I address this in my design discussion of the **Green Label Portfolio**—check it out.

Last month, we placed an offer on page two to place a **FREE advertisement** in our newsletter for anyone of our business clients wishing to send us their information. I was very excited to know, by the zero response, that every single one of our business clients has all the business they can handle and all the money they want. That's FANTASTIC!, If it's true. Sad mistake if it's not. *You can lead a horse to water, but...* Oh, well, let's try this again. Check out page two for the free offer.

Technically, **this monthly newsletter is NOT FREE**. We mail it to our clients as part of the professional services provided. About 90% of the newsletters mailed out are for current clients. The other 10% are prospective clients—receiving our newsletter as a means of “getting to know us” on a free, complimentary basis. This complimentary arrangement is only for 12 months, after that, you have to become a client, or you'll be dropped from our distribution list. So, **if you're not currently a client**—you may want to call our office and ask that we not drop you from the list. Also, if you know someone who may value our services, you can call us and add their name to the list—free for 12 months. (We only distribute the newsletter by mail—not e-mail... .. sorry.)

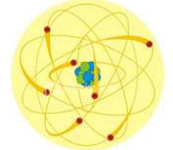
On page two you'll find the two winners of our annual testimonial contest. It warms my heart to read the kind words of those who sent in their testimonials expressing how they truly value our services and deeply appreciate the extra touches one of our staff members put into the experience for them. Thank you to all who participated!

Working Harder Than Ever For YOU,

Monty

## Amazing New Discovery

Lawrence Livermore Laboratories has discovered the heaviest element yet known to science. The new element, Governmentium (symbol=Gv), has one neutron, 25 assistant neutrons, 88 deputy neutrons, and 198 assistant deputy neutrons, giving it an atomic mass of 312. These 312 particles are held together by forces called morons, which are surrounded by vast quantities of lepton-like particles called peons. Since Governmentium has no electrons, it is inert. However, it can be detected, because it impedes every reaction with which it comes into contact. A tiny amount of Governmentium can cause a reaction that would normally take less than a second, to take from 4 days to 4 years to complete. Governmentium has a normal half-life of 2 to 6 years. It does not decay, but instead undergoes a reorganization in which a portion of the assistant neutrons and deputy neutrons exchange places. In fact, Governmentium's mass will actually increase over time, since each reorganization will cause more morons to become neutrons, forming isodopes. This characteristic of moron promotion leads some scientists to believe that Governmentium is formed whenever morons reach a critical concentration. This hypothetical quantity is referred to as critical morass. When catalyzed with money, Governmentium becomes Administratium (symbol=Ad), an element that radiates just as much energy as Governmentium, since it has half as many peons but twice as many morons. **Source: An Internet Blogger.**



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## Life After Tax Season . . .



The staff at Montgomery Taylor & Company finished the 2008 Tax Season by celebrating with a pizza party and “Crazy T-Shirt” Day on April 15. Name tags were provided for everyone, including:

- Monty – “The Man”
- Milady – “The Duchess of Does It All”
- Mike – “The Tax Guy”
- Barbara – “The Empress of Efficiency”
- Phil – “Mr. Wonderful”
- Pat – “The Queen of Scanning”

Now that tax season is over, the office is quiet, and our work hours are back to normal, Monday through Friday, 8-5. We have more time to spend with loved ones and enjoy personal interests. Monty and his wife recently spent a lovely weekend on the Mendocino coast. Milady is enjoying her Saturdays off and is getting ready to visit her family in Key West, Florida. Mike is working part-time and playing golf. Pat is working in her garden and planning a motorcycle trip to Southern California. Cathy is spending time with her family. Phil is working part-time, exploring new hiking trails in Sonoma County and planning a trip to Washington to visit friends and family. Barbara is enjoying the longer, warmer days of spring and monthly trips to San Francisco for musical theater performances. She especially enjoyed the current production of “Wicked”.

By the way, next time you see Milady, watch her smile when you ask her about the “Financial Lizard”.



The staff sincerely hopes each of you felt well cared for during tax season. Our goal throughout the year is to provide you with extraordinary service and strategies for meeting your personal financial goals.

**Remember to check out  
our website and blog**

## And the winners are...



The winner for Free Tax Preparation for 2009 is **Masumi Hattori**. Here’s her winning entry...

*“Mr. Taylor’s flyer caught my eye and I decided to try his office last year. I was pleasantly surprised by*

***Mike’s** friendly, confident and relaxed disposition, along with a near \$1,000 refund which made visiting Russia possible.*

*Although I owe a lot this year in federal tax, Mike called me to explain in detail the cause and effect, pointing out what to look for, what to do to improve. This is completely new for me, for my previous CPA has never explained to me, even when I asked. Mike is generous in giving tips/advice – he even gave me the name of an honest plumber.*

*Am I glad I found Mike! Thank you very much Mike, for your generosity and your insight!”*

*~ Masumi Hattori ~ Retired ~ Santa Rosa ~*

The winner of the day of instruction and racing at the Jim Russell Racing School at Infineon Raceway is **Barbara Cooper**. Here’s her winning entry...



*“I appreciate the very friendly atmosphere in the office to start, but also the responsiveness to my questions and concerns, I especially appreciate the full range of financial services offered. It takes the stress out of gathering all the information.”*

*~ Barbara Cooper ~ Registered Nurse ~  
~ Santa Rosa ~*

## Client Appreciation Feature...

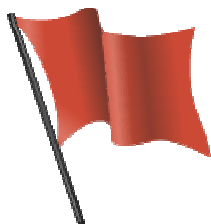


### Your Business Featured Here!

If you would like your business featured in an upcoming newsletter, just send us a short info piece describing you and your business.

You’re Special, and We Appreciate Your  
Business!

# Tax Strategy of the Month



## Are you putting red flags in your tax return???

*“You can’t catch me!  
You can’t catch me!”*

Here is a list of deductions as claimed by Joe and by Jon in their income tax returns:

Deduction claimed	Joe	Jon
DMV fees	281	300
Goodwill donations	463	500
Business cell phone use	532	1200
Business meals	689	1000
Business office supplies	2883	3000
Auto business miles driven	1241	22000
Auto personal miles driven	23759	3000

Now, you tell me which of these tax returns smells a little fishy. Pretend you’re an IRS Agent for a moment and tell me which of these two, would you go after. Well, let me see, I’ll bet you picked Jon. WHY?

You may look at this and think I’m just being stupid. Well, no... I see this every tax season. I sit down with someone to interview them about their income and deductions so I can prepare their income tax returns. On their list, or maybe off the top of their heads, they’re giving me some nice round, fishy numbers (\$200, \$2000, 20,000 miles) to deduct. **I’m NOT the IRS**, so I take the numbers down that they give me and report them in their income tax return. And, in my file is an engagement letter which they signed declaring that all the information they are giving me is true, accurate and can be substantiated, if necessary, upon audit. They’re hanging themselves and waving a red flag at the IRS. **If I were the IRS**, I’d give it the smell test and then DEMAND that Jon gave me a receipt for every single item going into his tax return.

When Jon tells me his deduction amount is \$500, It is not my place to challenge him or assume he’s lying. I don’t even give him a wink and say, “Ah, don’t you really mean \$493?” Here’s the deal: I’m an honest person, I don’t lie to my clients and I assume they’re not lying to me. What they tell me, I report it as fact—with or without a receipt.



There are other funny things that happen in these tax interviews. I may ask someone how much they contributed to charity last year. They look at me for a moment and then ask me, “Well, how much would be reasonable for someone at my income level?” Ah, NO, I don’t make up numbers for people! The deduction is what you spent. Period.



## When You Don’t Have Receipts

Contrary to wide publicity by the IRS, it is possible to have many deductions allowed at a tax audit even if you don’t have receipts with you. The trick is to reconstruct your expenditures and back them up with corroborating evidence.

**Home entertainment example:** Suppose you claimed a business-expense deduction of \$984 for home entertainment expenses but you can’t prove, with receipts, that the money was actually spent. *First step:* Establish the dates that you entertained people in your home. Check your calendar. If it’s lost, speak to a few people you remember entertaining and ask them to look at their calendars. *Next:* Make a list of all the people you entertained at each party and record the company they were affiliated with. Jot down your business relationship with each person. This will help you establish, for the IRS, that people were entertained. At the same time, it will refresh your memory. If you mailed invitations or received thank-you notes, it will help you prove your case to show them.

**Reconstruction:** Now, reconstruct the amount of money you spent each time you entertained at home. What did you serve? Did you keep a menu? Figure out the approximate cost of the food you purchased. Make a list of the quantity of food and beverages bought, the approximate prices and the name and address of each store that you shopped at. Include items purchased at the supermarket, butcher shop, bakery, fruit store, liquor store and party shop. Don’t forget to include the approximate value of food and beverage items served which were on hand and that did not have to be specifically purchased.

**Other helpful evidence:** Photographs taken at each gathering and sworn statements from people attending each party attesting to its date, the approximate number of people present and the types of food and beverages served.

# Tax News You Can Use...

## How to raise financially literate children

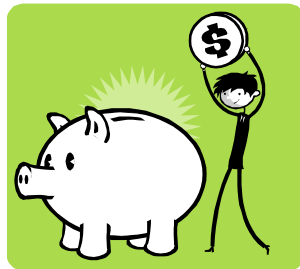
If everything your children ever learned about personal finances came from the mass media, they might think credit is a limitless resource and savings something you only find on a clearance rack. To fill in the gaps in their financial education, parents should teach their children the fundamentals of handling money. But where do you start? Perhaps begin with the following benchmarks of financial literacy.

### Time Value of Money

One of the most essential of all financial concepts is the time value of money. Children should be shown the benefits of saving money, watching it grow, and patiently deferring purchases until a future time.

When children grow a little older, they can learn the reverse lesson: how debt today results in accumulated interest costs down the road.

To illustrate the point, show them a loan amortization schedule for a typical car or home loan. That will get their attention.



### Transactional Skills

In today's cashless society, your children will someday need to know how to write a check, use a debit or credit card, and how to bank online. When they are ready, consider setting aside a morning to take them to the bank, introduce them to a representative, and set up their first checking and bank card under the tutelage of the banker. Children will appreciate this rite of passage to adulthood, and they will learn how to navigate an ATM or bank Web site the right way, not just the way you do it.

### Keeping Good Records



You might feel a little hypocritical when pointing out your children's recordkeeping shortcomings, but they probably need your help more than you think. Knowing how to reconcile a checkbook and track

where they spend their money is a valuable life skill. Developing a system for safely storing receipts, warranties, and other valuable papers is also important. When they begin driving, point out the location and importance of the vehicle proof of insurance and registration.

## Reflecting Your Values

Like any other area of life, you will naturally want to pass down truisms that have guided you financially. Succinct phrases often suit this purpose quite effectively, such as, "keep a little gas in the tank, a little money in the bank." Or, "don't place all your eggs in one basket." Sound corny? Perhaps. But such sayings today might just remind your children of something important tomorrow.



Those who value philanthropy should consider including their children in the charity selection process. Teach them why certain causes are important to you, and how you determine the amount to give. Perhaps you could give your children gifting discretion over a small sum of charitable dollars.

### Investments 101

The day will eventually come when your children will be ready to talk investments, retirement, and taxes. Feeling intimidated yet? There is no need to fear. Our firm can assist you and your children with these advanced topics. Being financially literate is not child's play. But then again, neither is being a parent.

## IRS expands 2009 homebuyer credit

The IRS announced recently that taxpayers who qualify for the first-time homebuyer tax credit on a home purchased from January 1, 2009, through November 30, 2009, may claim the credit on either their 2008 income tax return which is filed this year or on their 2009 tax return due April 15, 2010.



This option makes it possible for qualifying taxpayers to put money in their pockets in 2009, rather than waiting until next year to benefit from this tax break. Those who buy a home after filing their 2008 tax return may amend the return if they wish to claim the credit for 2008.

The first-time homebuyer tax credit provides a refundable credit of 10% of the home's purchase price, up to a maximum credit of \$8,000. If the taxpayer lives in the home for at least three years, the credit does not have to be repaid. Income limits apply, with phase-out of the credit starting at \$75,000 for single taxpayers and \$150,000 for married couples filing jointly.

For first homes purchased from April 9, 2008, through December 31, 2008, a credit of up to \$7,500 is available to qualifying taxpayers. This credit can only be taken on a 2008 tax return, and it must be repaid in 15 equal installments beginning with the 2010 tax year.

## Could your business recover from a disaster?

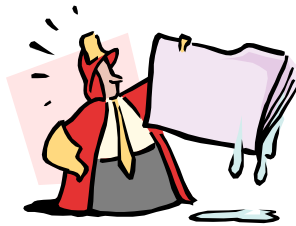


With the recent devastating floods and tornadoes fresh in mind, every business owner should be asking whether his or her company could survive a disaster.

Every business is vulnerable to natural disasters such as fires, floods, tornadoes, hurricanes, and earthquakes. However, advance preparation can minimize your exposure in several ways. For example:



- Physical assets. Buildings, equipment, furniture, inventories, and supplies should all be protected by adequate property and casualty insurance. Review each policy for “named perils,” which are disasters covered (such as floods or earthquakes). If your location is prone to one of the perils not listed, consider expanding your coverage or buying an additional policy to include it.
- Records. Missing records can make it hard to quantify your disaster losses. Duplicates of financial statements, customer lists, inventories, and other important data should be maintained in a secure off-site location and updated regularly.
- Computers. Critical computer data should be duplicated regularly on portable hard drives or other storage media and stored off-site.
- Recovery. Consider buying “extra expense” insurance to cover relocation costs for a quick post-disaster recovery. Also, you should identify alternative sources of operating assets (such as furniture and equipment lessors), and investigate other possible business locations.



For assistance in disaster-proofing your business, give us a call.

**Tax Advice Disclosure:** To ensure compliance with requirements imposed by the IRS under Circular 230, we inform you that any U.S. federal tax advice contained in this communication (including any attachments), unless specifically stated otherwise, is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties or (ii) promoting, marketing or recommending to another party any tax-related transaction(s) or matter(s) addressed herein. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.

# College Strategist

Paying for College Without Going Broke

## College Acceptance and Award Letters – What To Do Next



Congratulations! The letter you’ve been waiting for has finally arrived in the mail. The first sentence usually tells it all – either the college is happy to extend an offer of admission or they are unable to extend an offer at this time. Although at that moment that’s all you really want to know, keep reading! Your acceptance letter will most likely contain some very important information about decisions and deadlines you need to pay close attention to. These include:

- An acceptance notification deadline.
- Additional forms to fill out and return.
- A deadline for submitting your final high school transcripts.
- A deadline for submitting required financial deposits.
- Information about campus meal plans and residence halls
- Information about freshman orientation

A college acceptance letter is usually followed by an award letter which tells you exactly how much financial support the school is able to provide for the upcoming year. The most common financial awards are:

- ✓ **Grants:** Money that does not have to be repaid
- ✓ **Work Study:** Money earned toward college costs by working on campus.
- ✓ **Scholarships:** Money that does not have to be repaid
- ✓ **Loans:** Money borrowed that must be repaid

Read your award letter carefully to be sure you understand all terms and conditions so you can decide if you want to accept any, or all, of the aid offered. Look for instructions for your next steps. You may need to complete additional paperwork such as loan applications. Determine if grants or scholarships are available for more than one year. If so, what conditions apply? If not, are any options listed for the following years? Remember, unless otherwise stated the award letter applies only to the upcoming school year.

Once you’ve chosen your college, you should inform the school in writing how much of the award you plan to accept. If you don’t respond by the date indicated, your award could be in jeopardy. You should also inform other colleges where you’ve been accepted that you won’t be attending.

Again, congratulations! All your hard work has paid off! If you have any questions about how you’re going to pay the upcoming costs of college, attend one of our College Financial Planning Workshops. Call our office at 576-8700 for the dates and locations of upcoming workshops.

# Financial Strategy of the Month

## Don'ts: Five things NOT to do immediately when a family member dies (continued)



### 3. Allow one family member to move into the family home without a rental agreement

Here's the scenario: Mom is unable to live alone. Sonny is not working. He graciously offers to move in with Mom and take care of her in exchange for free rent.

Why this is a bad idea:

- Sonny may not take care of Mom in the manner the other children expected. (After all, Sonny has been unemployed most of his life, and not because he is responsible.);
- Without a rental or other written agreement, it may be difficult to get Sonny out of the house if he is not caring for Mom as agreed; and
- Sonny may not take care of the property, decreasing the value.

What to do instead: If Mom needs care:

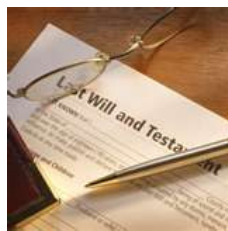
- Consider hiring someone to come in part-time to help;
- If Sonny does move in with Mom, have a written agreement that spells out the expectations of both parties. If the child is not meeting expectations, it will be easier to remove him from the home; and
- Have Mom spend time living with each of the children until it can be determined how much and what type of help is needed.

### 4. Immediately sell or give away personal possessions and cash in stocks or sell property

Here's the scenario: Mom dies. Children are in town and want to clean out the house for immediate sale. They gather up all the personal possessions, pick out what they want for themselves and give the balance of the items to charity.

Why this is a bad idea:

- There may be specific bequests in the will that the children are unaware of;
- There may be written instructions somewhere that the children are unaware of until after the fact; and
- The children may, in their haste, contribute something of value that they later wish they had kept, or throw away something valuable, such as an old stock certificate, a valuable antique, or paperwork.



What to do instead: Wait until the funeral is over, the will and trust are found, and things settle down to distribute personal affects.



### 5. Distribute property and pay bills without the help of tax and legal advisors

Here's one scenario: Parent dies. He was married to his second wife (not the mother of

his children). The children of the decedent begin dividing assets among themselves. After all, they understood that when Mom died, everything went to Dad so when Dad dies, they get what's left. But they fail to consider the stepmother.

Here's a second scenario: Surviving spouse is younger and there are significant assets. The surviving spouse immediately does what she thinks is best for her.

Why these are both bad ideas: Before assets are distributed, the most current will and trust must be obtained. A probate may be necessary. Assets must be accounted for and distributed pursuant to the most current will/trust. Failing to

do so could result in:

- Assets being distributed (and possibly disposed of) by an individual who is not the rightful heir;
- Potential lawsuits if property is not distributed pursuant to the most current will or trust;
- Assets being distributed before all liabilities are known and paid, leaving one beneficiary stuck paying the balances;
- IRA rollovers being made to a young spouse who may need the funds later and cannot access them without tax penalty; or
- Property being sold before proper basis can be determined and consideration of taxable gain.



What to do instead: Obtain the most current will and trust. Contact both an attorney and CPA before making distributions or changing title to assets to ensure that the terms of the will/trust

are followed and the best tax and financial choices are being made for each beneficiary.



**Montgomery Taylor, CPA**

**Client Benefits:**

1. Expert tax-saving advice as a regular part of your income tax preparation
2. Professional Service Warranty that guarantees you the largest tax refund possible with the lowest tax liability
3. Your tax returns completed within five business days of when you provide all necessary data
4. Your phone calls returned promptly (any time of year), always within 24 hours
5. Help with allocating your 401(k) investment funds
6. Monthly ClientAdvisor Newsletter
7. Professional online tax advice anytime ~ mtaylor@taxwiseadvisor.com

**Platinum Tax Maintenance Program**  
**2008 Member Benefits:**

1. ALL CPA Client Benefits listed above, **AND**
2. Three phone consultations (20 minutes each or a total of 60 minutes) during the tax year scheduled through our appointment desk
3. W-4 review to be sure your withholding is correct
4. Audit assistance in the event you are subject to an audit for the 2008 year, limited to four hours of service at no additional expense
5. Answer all IRS notices and correspondence you receive for 2008 tax year
6. Answer FTB notices and correspondence including Head of Household Audit Letter for 2008
7. 1 additional copy of tax year 2008 tax return
8. \$50 discount on our fall tax planning appointments scheduled through our appointment desk
9. One FREE Re-Run of your 2008 Return, in case of corrected 1099, new info, etc.

**Montgomery Taylor & Company, LLC,**  
**Registered Investment Advisor**  
**Client Benefits:**

1. Independent, unbiased, investment advice on a fee-only basis (no commissions)
2. Investment management for any account size (no minimums)
3. Monthly account statements directly from Fidelity Investments
4. Quarterly performance reports and consultation meetings
5. Tax-sensitive investing strategies integrated with your financial planning
6. Monthly ClientAdvisor Newsletter
7. Weekly Economic Update e-mail communication

**College Plan Advisors, LLC**  
**Client Benefits:**

1. Student Counseling and Assessment
2. Calculate Expected Family Contribution
3. College Funding Strategies & Planning
4. Complete your FAFSA Forms
5. Complete your CSS Profile Forms
6. Appeal/Negotiate Better Awards
7. Monthly Cash for College Newsletter
8. Monthly ClientAdvisor Newsletter
9. Weekly "Tip of the Week" E-Mails



**Notes from Monty's private money management file...**

Due to the timing of a few different events, I am writing this analysis before the end-of-April figures are available and will, for the same reason, be unable to include a performance chart for the Green Label Portfolio.

At the beginning of April, we held about 78% in various forms of "cash," 20% in bonds and a 2% position in a growth fund. During the month I've made a few adjustments between the weightings in the various cash and bond positions—seeking higher yield. Also, two times during the month, on days that the market pulled back, I added additional 2% positions to the growth fund. It's been a fairly quiet trading month, because we're in a bear-market rally and the market could easily turn in either direction at any moment. Staying put in a conservative position, earning a positive yield, is the prudent thing to do.

**Points to Ponder in Portfolio Design...**

• **What's most important?**

Everyone knows the three most important factors when investing in real estate: location, location, location. But what about your stock and bond investments: What are the three most important factors when choosing an investment advisor? *Results, results, results.*

• **Killing poor performance.**

If you want to receive good performance, you need to eliminate poor performance. And the root cause of poor performance is losses. *"No kidding,"* you say, *"and the root cause of dying is death!"* But I'm serious. If you control your losses, you will control your portfolio's performance.

So how do you control losses? You control losses by having an **exit strategy**. That's right, an exit strategy. Highlight it, cut it out and tape it to your mirror. Without an exit strategy how will you know when to cut the losers in your portfolio or lock-in a winner's profit? Nothing goes up forever. Therefore, it is imperative to know when to take your chips off the table.

**The main reason so many investors lost money in the last down market is that they, or their advisor, did not have an exit strategy.** Remember, there is no reason to be emotionally attached to any investment. Investments are designed for one thing and one thing only: to make you money.

In the **Green Label Portfolio**, I've built in numerous risk management strategies—including exit strategies. In addition, and besides the quality criteria in my security selection, I have the following design mechanics in place: safe entrance rules, stop loss rules, and investment amount, per security, limits.



# Monty's Money Message

Monty started his career in financial services about 30 years ago as a Stockbroker. He then became a Certified Public Accountant, Certified Financial Planner, Certified IRA Distribution Specialist and Registered Investment Advisor. With all these years of experience, he has a wealth of information to share with you about money and how you can prosper. Monty recently received the "America's Top Financial Planners" award of excellence from the Consumers' Research Council of America. Monty was selected from among his peers based upon years of experience, formal education and specialized professional certifications and designations achieved.

## COULD YOU RAISE YOUR SOCIAL SECURITY INCOME BY \$1,000 A MONTH?

*How filling out Form SSA-521 could help you put more money in your mailbox.*

A couple of years ago, Boston University economics professor Laurence Kotlikoff publicized a mindblowing discovery: retirees could dramatically increase their Social Security checks by reapplying for Social Security benefits. It was entirely legal; it was an opportunity that had lain unnoticed for years. It was soon discussed on National Public Radio and PBS, and in *USA Today* and a number of financial magazines. Let's discuss it here.



### Hit "restart" and reset your SSI.

Everyone eventually applies for Social Security, but few people reapply – and that's the key to this strategy, which can potentially bring retired couples \$1,000 or more in additional SSI per month. Kotlikoff calls it "restarting the Social Security clock". If you have retired within the last few years, it is a move worth considering.

You can start collecting Social Security benefits when you're first eligible, and then restart your payments at a higher rate later. You simply file Form SSA-521 ([www.ssa.gov/online/ssa-521.pdf](http://www.ssa.gov/online/ssa-521.pdf)) to request a withdrawal of your Social Security application. After the SSA processes that form, you reapply for Social Security – and since you are older now than when you first applied, this time you will receive much higher payments.

For example, a 63-year-old individual who started Social Security benefits in 2008 at age 62 would have received a payout of \$18,794 a year; waiting until age 66 or age 70 would have meant \$25,732 or \$35,250 annually for that person.

So if you feel you applied for Social Security too soon, this presents you with a remedy. As Kotlikoff noted in *USA Today* in 2008, a 70-year-old receiving \$11,556 as a result of claiming early retirement benefits could reapply for Social Security benefits at age 70 and boost her standard of living by 14%. It would be like having an inflation-indexed annuity for about 40% less than the cost of a similar investment from an annuity provider.

**What's the catch?** You have to repay the Social Security benefits you have already received. But you don't have to pay interest on that money. Basically, you're repaying an interest-free loan from Uncle Sam.



Now if enough people do this, there is the risk that the federal government may say, "Wait a minute – look at all these people exploiting this opportunity." But very few retirees do. If you do reapply, there's nothing fishy about it. Visit your local Social Security office (make an appointment by calling 1-800-772-1213). Bring Form SSA-521 with you, or ask for it and fill it out while you are there. Don't be surprised if the person on the other side of the desk doesn't know what you're talking about when you mention reapplying for benefits. So bring a copy of the formal SSA explanation

([www.ssa.gov/OP\\_Home/handbook/handbook.15/handbook-1515.html](http://www.ssa.gov/OP_Home/handbook/handbook.15/handbook-1515.html)) with you.

Once you repay your benefits, you can restart them whenever you want. If you fill out Form SSA-521 and hand over a check repaying the money you've received, you can reapply for benefits right then and there – the request is routinely approved.



For the record, Form SSA-521 only allows you to check one of two boxes for why you want to reapply for benefits. The first is "I intend to continue working" and the other is "Other (please explain fully)". Mickie Douglas, a spokeswoman with the Social Security Administration, told *Financial Advisor Magazine* that it is entirely legitimate to write down that you are reapplying because it is "financially better for you".



**What risks do I run by doing this?** The big risk is that you could die soon after you repay your benefits – you could be out, say, \$50,000 or \$60,000 without living long enough to enjoy much of the additional income. But survivor benefits would be larger for your spouse, of course. Speaking of spouses, widows and widowers cannot employ this strategy to reapply for a deceased spouse's benefits.

**Is this a good move for you?** It might be. In case you are wondering, Kotlikoff is no hack - he holds a Harvard Ph.D. in economics and is a former member of the President's Council of Economic Advisors. He knows his stuff, and so should you. If you have the money to repay a lump sum equivalent to the benefits you have received, this may be a great move – but talk with your financial or tax advisor to see how this decision affects your overall financial strategy.