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Quiz: How Much Do You Know about Social Security?

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

Questions

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

a. 5% to 10% less

b. 15% to 20% less

c. 25% to 30% less

d. 35% to 40% less

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

a. True

b. False

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

a. FUTA taxes

b. FETA taxes

c. FICA taxes

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

a. True

b. False

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

a. True

b. False

Answers

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

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

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

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

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

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

*Social Security Basic Facts, 2014

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10 Basic Tax To-Dos for the Rest of 2014

AMT "triggers"

You're more likely to be subject to the AMT if you claim a large number of personal exemptions, deductible medical expenses, state and local taxes, and miscellaneous itemized deductions. Other common triggers include home equity loan interest when proceeds aren't used to buy, build, or improve your home, and the exercise of incentive stock options.

IRA and retirement plan contributions

For 2014, you can contribute up to $17,500 to a 401(k) plan ($23,000 if you're age 50 or older) and up to $5,500 to a traditional or Roth IRA ($6,500 if you're age 50 or older). The window to make 2014 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return to make 2014 IRA contributions.

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Make time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings when you can assess whether you'll be paying taxes at a lower rate in one year than in the other. So, carve out some time.

2. Defer income

Consider any opportunities you have to defer income to 2015, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the 2014 tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2015, could make a difference on your 2014 return.

Note: *If you think you'll be paying taxes at a higher rate next year, consider the benefits of taking the opposite tack--looking for ways to accelerate income into 2014, and possibly postponing deductions.*

4. Know your limits

If your adjusted gross income (AGI) is more than $254,200 ($305,050 if married filing jointly, $152,525 if married filing separately, $279,650 if filing as head of household), your personal and dependent exemptions may be phased out, and your itemized deductions may be limited. If your 2014 AGI puts you in this range, consider any potential limitation on itemized deductions as you weigh any moves relating to timing deductions.

5. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions, making it a significant consideration when it comes to year-end tax planning. For example, if you're subject to the AMT in 2014, prepaying 2015 state and local taxes probably won't help your 2014 tax situation, but could hurt your 2015 bottom line. Taking the time to determine whether you may be subject to AMT before you make any year-end moves can save you from making a costly mistake.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pretax contributions to an employer-sponsored retirement plan such as a 401(k) could reduce your 2014 taxable income. Contributions to a Roth IRA (assuming you meet the income requirements) or a Roth 401(k) plan are made with after-tax dollars, so there's no immediate tax savings. But qualified distributions are completely free from federal income tax, making Roth retirement savings vehicles appealing for many.

7. Take required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working and participating in an employer-sponsored plan). Take any distributions by the date required--the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of the amount that should have been distributed.

8. Know what's changed

A host of popular tax provisions, commonly referred to as "tax extenders," expired at the end of 2013. Among the provisions that are no longer available: deducting state and local sales taxes in lieu of state and local income taxes; the above-the-line deduction for qualified higher-education expenses; qualified charitable distributions (QCDs) from IRAs; and increased business expense and "bonus" depreciation rules.

9. Stay up-to-date

It's always possible that legislation late in the year could retroactively extend some of the provisions above, or add new wrinkles--so stay informed.

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation, keep you apprised of legislative changes, and help you determine if any year-end moves make sense for you.

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What Is the Federal Reserve and What Does It Do?

The Fed's mission

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

Publications

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

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

What is the Federal Reserve?

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

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

How is the Fed organized?

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

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

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

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

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

So what does the Fed actually do?

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

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

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

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

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

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

In the meantime, if you find that your account information is at risk due to a data breach, you should make it a priority to periodically review your credit card and bank account activity. If you typically wait for your monthly statement to arrive in the mail, consider signing up for online access to your accounts--that way you can monitor your accounts as often as needed. If you see suspicious charges or account activity, you should contact your bank or credit-card company as soon as possible.

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

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

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

I'm purchasing a new laptop. Should I also purchase an extended warranty to go along with it?

If you've ever purchased an electronic device or major appliance, chances are you've been asked if you also wanted to purchase an extended warranty or service contract. Extended warranties are offered by retailers for an additional cost to customers and provide repair or product maintenance for a specific period of time.

For many retailers, selling extended warranties makes up a large part of their business. It's an easy way for them to make money because they get to keep a percentage of what they charge for the service contracts.

Before you purchase an extended warranty for your laptop, consider the following questions.

- Does your laptop come with a manufacturer's warranty? Most technology products already come with a warranty from the manufacturer that covers replacement or repairs within a certain time period, typically one year.
- Will the manufacturer's warranty overlap with the extended warranty? You may want to forgo purchasing an extended warranty if it will result in duplicate coverage for your laptop.
- Do you plan on purchasing your laptop from a well-known manufacturer? Research online product reviews regarding your laptop's reliability. If you purchase a reliable product, most problems you'll encounter will typically occur outside of any extended warranty period.
- If your laptop does need repairs, will they be costly? You should weigh the cost of the extended warranty against what it will cost to pay for the repairs out-of-pocket.

Finally, if you do end up purchasing an extended warranty, read the terms carefully. Many extended warranties contain exceptions and limitations regarding what is and isn't covered. In addition, some extended warranties may also add on additional charges to have a covered product serviced (e.g., deductibles, fees, and shipping costs).

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