MF Advisers
$ = mf ²

THE FINANCIAL FORMULA

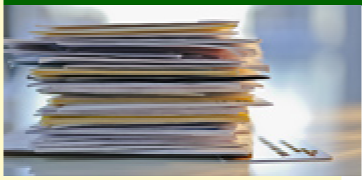
Giving You The Financial Information You Need

October 2016

Hello FF readers! Please enjoy this month's edition of The Financial Formula! Please let us know if you have any questions - thanks!

Martin A. Federici, Jr.
MF Advisers, Inc.
CEO
marty@mfadvisers.com
570-760-6524
Fax: 570-675-7105
91 Franklin Street
Dallas, PA 18612
http://mfadvisers.com

In This Issue



Tax-related identity theft occurs when a thief uses your Social Security number to file a tax return and claim a fraudulent tax refund.

Identity Theft and Taxes

Identity theft is one of the fastest growing crimes in America affecting millions of unsuspecting individuals each year. A dishonest person who has your Social Security number can use it to obtain tax and other financial and personal information about you.

Identity thieves can get your Social Security number by:

- Stealing wallets, purses, and your mail.
- Stealing personal information you provide to an unsecured website, from business or personnel records at work, and from your home.
- Rummaging through your trash, the trash of businesses, and public trash dumps for personal data.
- Posing by phone or email as someone who legitimately needs information about you, such as employers or landlords.

Tax-related identity theft occurs when a thief uses your Social Security number to file a tax return and claim a fraudulent tax refund. In 2015 alone, the IRS stopped 1.4 million confirmed identity theft tax returns, protecting $8.7 billion in taxpayer refunds.[1] The IRS has become increasingly diligent in its efforts to thwart identity theft with a program of prevention, detection, and victim assistance. The "Taxes. Security. Together." program is aimed at building awareness among taxpayers about the need to protect personal data when conducting business online and in the real world.

Stay Vigilant

By remaining vigilant and following a few commonsense guidelines, you can support the IRS in keeping your personal information safe. Here are a few tips to consider:

- Protect your information. Keep your Social Security card and any other documents that show your Social Security number in a safe place.
- DO NOT routinely carry your Social Security card or other documents that display your number.
- Monitor your email. Be on the lookout for phishing scams, particularly those that appear to come from a trusted source such as a credit card company, bank, retailer, or even the IRS. Many of these emails will direct you to a phony website that will ask you to input sensitive data, such as your account numbers, passwords, and Social Security number.
- Safeguard your computer. Make sure your computer is equipped with firewalls and up-to-date anti-virus protections. Security software should always be turned on and set to update automatically. Encrypt sensitive files such as tax records you store on your computer. Use strong passwords and change them routinely.
- Be alert to suspicious phone calls. The IRS will never call you threatening a lawsuit or demanding an immediate payment for past due taxes. The normal mode of communication from the IRS is a letter sent via the U.S. postal service.
- Be careful when banking or shopping online. Be sure to use websites that protect your financial information with encryption, particularly if you are using a public wireless network via a smartphone. Sites that are encrypted start with "https." The "s" stands for secure.
- Google yourself. See what information is available about you online. Be sure to check other search engines, such as Yahoo and Bing. This will help you identify potential theft sources and will also help you maintain your reputation.

Fear You Have Been Scammed?

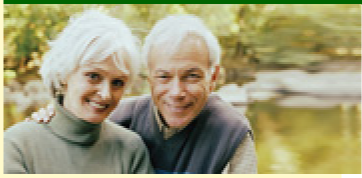
If you feel you are the victim of tax-related identity theft - e.g., you cannot file your tax return because one was already filed using your Social Security number - there are several steps you should take.

- File your taxes the old-fashioned way -- on paper via the U.S. postal service.
- Print an IRS Form 14039 Identity Theft Affidavit from the IRS website and include it with your tax return.
- File a consumer complaint with the Federal Trade Commission (FTC).
- Contact one of the three national credit reporting agencies -- Experian, Transunion, or Equifax and request that a fraud alert be placed on your account.

If you have been confirmed as a tax-related identity theft victim, the IRS may issue you a special PIN that you will use when e-filing your taxes. You will receive a new PIN each year.

For more information on tax-related identity theft visit the IRS website, which has a special section devoted to the topic.

[1]*The Internal Revenue Service, "How Identity Theft Can Affect Your Taxes," IRS Summertime Tax Tip 2016-16, August 8, 2016.*



Social Security: Income Replacement Trends Declining for Working Couples

In a way it seems counter-intuitive. Yet a recent report published by the Center for Retirement Research at Boston College found that, over the years, as more women have left their posts as full-time homemakers and joined the workforce, the income replacement rate that Social Security provides to two-earner married couples has been in steady decline.

Demographic Shifts

The study found that as more women went to work, the "family benefits" component of Social Security -- i.e., spousal and survivor benefits -- began to decline sharply as a source of household retirement income. For instance, more than half of all women born in the early years of the Depression who became eligible for Social Security benefits in the 1990s were entitled to a spousal and/or survivor benefit in their initial claim. By contrast, fewer than a third of the oldest baby boomer women were entitled to family benefits when they first became eligible for Social Security benefits between 2010 and 2015.[1]

This decline in family benefits has been the main catalyst behind the erosion in household Social Security replacement rates, which have dropped from about 50% for older couples born in the early 1930s, to 45% for the oldest baby boomer couples. Another steep decline in replacement rates (to just 39% of pre-retirement income) is forecast for Generation Xers when they begin to retire after 2028.[1]

The study summed up the factors driving the trend quite simply:

"The labor force activity of women has a significant effect on the couple's replacement rate, which is the household's total Social Security benefit as a percentage of pre-retirement earnings. As women work, they increase the couple's pre-retirement earnings more than their Social Security benefits, so the household's replacement rate declines.[1]"

Estimate Your Benefits Annually

The declining income replacement rate is a critical issue to keep in mind as couples plan for their retirement years. Make a point of checking out your estimated benefits at least annually so you know how much to expect -- and how much you'll need to provide from your own savings. You can estimate your retirement benefits online at SSA.gov, using one of the following methods:

- The Retirement Estimator gives estimates of your retirement monthly benefit, based on your actual Social Security earnings record. The calculator shows early (age 62), full (ages 65-67 depending upon your year of birth), and delayed (age 70). The Retirement Estimator also lets you create additional custom estimates by inputting different stop-work ages and future earnings.
- If you do not have an earnings record with Social Security or cannot access it, there are also other benefit calculators that do not tie into your earnings record. The calculators will show your retirement benefits as well as disability and survivor benefit amounts if you should become disabled or die.

Social Security should be a part of your retirement income planning. Also, remember that Social Security benefits don't automatically increase every year. They typically are raised to reflect an increase in the cost of living.

[1]*Center for Retirement Research at Boston College, "How Work and Marriage Trends Affect Social Security's Family Benefits," June 2016.*

What Motivates Your Investment Moves?

When the stock market falls sharply as it did following the recent Brexit Referendum in the United Kingdom, it is not unusual for investors to react emotionally -- to act on impulse before thinking through the potential long-term consequences. Why does emotion sometimes cloud your judgment when it comes to making investment decisions? The answer may be found in the study of "behavioral finance."

Scholars of behavioral finance believe that investors are too often influenced by psychological or emotional impulses that run contrary to the fundamental principles of long-term planning.

Scholars of behavioral finance believe that investors are too often influenced by psychological or emotional impulses that run contrary to the fundamental principles of long-term planning. But the study of behavioral finance involves more than pointing fingers at past mistakes. Its proponents encourage investors to develop skill in recognizing situations that may lead them to make emotionally driven errors, so those errors may be avoided in the future.

Investor, Know Thyself

Behavioral psychologists have identified several common behaviors that may be exhibited by investors. See if you recognize yourself in any of these examples.

Fear of Regret/Risk Aversion -- The threat of a potential disappointment or a short-term loss is a powerful force that often inspires second-guessing of portfolio strategies. Common responses are to avoid investing altogether, to hold on to a losing stock for far too long in the hopes that it will bounce back one day, or to sell winners too soon -- before they may have reached their full potential.

Overconfidence -- Some investors tend to overestimate their knowledge and skills. For instance, they may overload their portfolio with stocks of a certain sector or geographic region they know well, because they are confident of their ability to understand and track these investments. As a result, they may tend to trade more actively than is in their best interest.

In addition, overconfidence may lead to irrational expectations and, ultimately, to a financial shortfall. For example, the Employee Benefit Research Institute's *2016 Retirement Confidence Survey* revealed that a majority (63%) of workers are "very" or "somewhat" confident that they will have enough money to live comfortably throughout retirement, even though fewer than half have actually tried to calculate how much money they would need.[1] In other words, many people may have a false sense of security based on incomplete knowledge of their situation.

Anchoring -- This behavior involves reading too much into recent events, despite the fact that those events may not reflect long-term realities or statistical probabilities. For example, investors who believe that a market surge (or downturn) will continue indefinitely may be anchoring their long-term expectations to a short-term perception. Anchoring causes investors to hold on to their investments even after an extended period of poor performance. As we all know, things change. Mental anchoring prevents us from adjusting to those changes

Today's investor needs a plan of action to help maintain a disciplined strategy and resist making common mistakes. Work with your financial advisor to construct a fully integrated financial plan that reflects your needs and risk tolerance. Such a plan will help you avoid potential pitfalls and stay focused on the long term.

[1]*Employee Benefit Research Institute's 2016 Retirement Confidence Survey, March 2016.*