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Should You Contribute to Retirement Plans and IRAs?

If you're eligible to contribute to an employer-sponsored retirement plan, should you? Should you contribute to an individual retirement account (IRA)? How about contributing to both? The answers are: Yes, yes, and yes. If this comes as a surprise, it's probably because there are so many rules about eligibility for contributing to IRAs and workplace retirement plans that it's easy to become confused about what is allowed and what isn't.

But whatever rules there are, one thing is never ruled out: you can always contribute to both a workplace retirement plan — like a 401(k) or 457 plan — and an IRA, as long as you have earned income. What's open to question are how much you can contribute, to which type of account, and whether your contributions are tax deductible. Keep these three important points in mind:

Point 1: There are limits to your annual contributions. Every year, the IRS sets limits on how much you can contribute to retirement plans, and the amounts are different for different kinds of plans. The one rule common to them all is this: you can't contribute more than your earned income (except for contributions to a spouse IRA for a spouse who does not work).

Let's say your employer sponsors a 401(k) plan. If you participate in the plan by a) making contributions of your own, b) your employer makes contributions for you, or c) you and your employer both contribute to your account, then you can still contribute to your own IRA outside the workplace. If you're 49 or younger, in 2012, you can contribute $17,000 to a 401(k) plan and another $5,000 to an IRA, for a total of $22,000 in retirement plan contributions. If you're 50 or older, those numbers are $22,500 for the

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Insurance Tips

- Make sure you have insurance in all key areas, including life, health, disability, homeowners and renters, automobile, personal liability, and professional liability and malpractice insurance.
- Read your insurance contracts carefully. Ask about any provisions you don't understand.
- Review your policy limits to ensure that the amounts are still adequate. Don't pay for duplicate coverage or riders you don't need.
- Don't overinsure. The purpose of insurance is to prevent financial hardship that results from a tragedy, not to get rich.
- Consider increasing your deductibles, which can significantly lower your premiums.
- Check your insurance companies' financial rating to make sure that their financial status has not weakened.
- Review your policies at least every couple of years, immediately if there is a major change in your life. ❍❍❍

Should You Contribute?

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workplace plan and $6,000 for an IRA, for a total of $28,500.

Point 2: Your income can affect the tax treatment of IRA contributions. Originally, there was only one kind of IRA: the kind that enabled you to reduce your taxable income by the amount of your contributions when you file your income tax return. Today, it's referred to as a "traditional" IRA, to distinguish it from a Roth IRA, to which you can only contribute after-tax money.

There are good reasons to choose either the traditional or Roth IRA, but if you participate in a workplace retirement plan *and* have income above the IRS limits, your ability to take the tax deduction for a contribution to a traditional IRA is limited. In 2012, tax deductibility begins to phase out if you're a single filer and earned more than $58,000, and disappears altogether at $68,000. For joint filers, the ranges are higher: $92,000 to $112,000.

Take note, however: if you make too much to be eligible for the up-front income tax benefit in the year you contribute to a traditional IRA, you can still make contributions to it *and* to your workplace retirement plan. In this case, you might want to consider contributing to a Roth IRA instead. But here, too, you might be limited by income: for 2012, eligibility to contribute to a Roth IRA phases out for single filers with AGIs above $110,000, joint filers with AGIs above $173,000, and disappears completely for those earning more than $125,000 and $183,000, respectively.

Point 3: Doing either can build assets faster — both, faster yet. The complexity of the rules regarding whether IRA contributions are tax deductible has obscured the most important benefit of qualified retirement plans: they compound free of annual taxes. This gives them a distinct advantage over taxable savings accounts, because at the same rate of return, assets grow faster when returns are not taxed.

For someone with an effective federal tax rate of 25%, an annual contribution of $5,000 to a taxable account that returns 6% a year grows to almost $223,000 in 25 years. But that same contribution to an IRA, at the same rate of return, grows to more than $274,000 — a difference of more than $50,000, regardless of whether the contributions were tax deductible. Increase the contribution to $20,000 a year, and the IRA grows to nearly $1.1 million after 25 years — and the advantage over a taxable account exceeds $200,000. *These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment vehicle.*

The bottom line: you should contribute as much as possible to tax-advantaged retirement plans. For many people who work, there are multiple retirement savings options available, including dividing your IRA contributions between both a traditional and a Roth IRA. There are even IRA options open for nonworking spouses. To make sure you're taking full advantage of the options open to you, please call.

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You're Never Too Old for a Roth IRA

Even if you're retired, consider contributing to a Roth individual retirement account (IRA), provided you have some earned income. In 2012, single taxpayers with modified adjusted gross incomes (AGIs) less than $110,000 and married taxpayers filing jointly with modified AGIs less than $173,000 are eligible to make a nondeductible contribution to a Roth IRA. Contributions are phased out for married couples filing jointly with modified AGIs between $173,000 and $183,000 and for single taxpayers with modified AGIs between $110,000 and $125,000. In 2012, the maximum annual contribution is the lesser of $5,000 or earned income. Individuals age 50 and older can make an additional $1,000 catch-up contribution.

Roth IRAs are a flexible way to save. Contributions can be withdrawn at any time with no tax consequences. Earnings and capital gains can be withdrawn on a tax-free basis if a qualified distribution is made at least five years after your first contribution and you have attained age 59½, or due to death, disability, or to pay up to $10,000 of first-time homebuyer expenses.

Other characteristics of a Roth IRA may make it an attractive investment for retirees:

- You can make contributions as long as you have earned income, no matter how old you are. With traditional deductible IRAs, you must stop making contributions when you reach age 70½.
- Mandatory withdrawals after age 70½ are not required. You can take out as much or as little as you want, whenever you want, after age 59½. If you don't need the money, the balance can continue to grow on a tax-free basis.
- Qualified distributions from Roth IRAs are not included in AGI. Thus, these distributions will not affect income taxation of your Social Security benefits.
- Roth IRAs can provide a tax-advantaged way to accumulate assets for heirs. Both traditional and Roth IRAs are subject to estate taxes. However, the beneficiaries of a traditional IRA must also pay income taxes on the proceeds, while beneficiaries of a Roth IRA receive qualified amounts income-tax free.

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Financial Harmony in Marriage

Financial stress can come from many sources, but one of the most difficult is when one spouse is a spender and the other a saver.

We come into marriage with attitudes toward money deeply engrained in our psyche, and those attitudes are not easily changed. But don't despair — if you find yourself engaged in a struggle with a spouse who is your opposite when it comes to saving and spending, there are steps you can take to achieve balance and harmony.

1. Agree to be a team. You got married to spend your lives together, so it shouldn't be difficult to start with this understanding, even if it may seem hard to reconcile with your money behavior.

To be a team you have to act like a team, and that starts by giving up individual possessiveness about money: there's no "your money" and "my money." It needs to be "our money."

2. Agree on your goals. Start your teamwork by articulating your long-term goals; they're the most important and the easiest to agree upon. Long-term goals might include living the lifestyle you want in retirement and educating your children.

Be sure to be specific. A goal isn't a dream, like "a comfortable retirement" or "a good school for the kids." Articulating specific long-term goals involves knowing

how much those dreams are going to cost and precisely when they will occur. You need dates and dollar figures.

Once you've reached an agreement on your long-term goals, try to set out the same kind of specific plans for your intermediate- and short-term goals, like your next vacation and your savings and retirement account balances for the end of the year.

3. Practice full disclosure. Being a team means each of you is empowered to act on behalf of the other with implicit approval. That requires that each of you has full command of the facts: how much money you make, how much you owe, and how much you spend.

Share the balances in any individual accounts you may hold, like checking and credit cards. You need to be completely honest with each other, even if you make a mistake now and then.

4. Budget and pay bills together. Create a monthly budget (spreadsheets are ideal for this) that compares the total of your bills and expected out-of-pocket expenses with every penny of incoming and available cash.

Include an itemized list of your debts and scheduled payment amounts, as well as your asset accounts and their balances.

Thoroughness is a key determinant of your success, so don't overlook anything, especially significant one-time expenses like gifts or big nights out.

Create a catch-all category called "miscellaneous" for the little things you might forget — or those that are small and hard to pin down.

Pay your bills at the same time at the same place, and then update your budget spreadsheet as you do. This means revisiting your monthly budget at least once a month. Print

out two copies and keep them where you can each easily glance at them whenever the need arises.

5. Update your checkbook(s). One way spenders rationalize their behavior is by keeping themselves in the dark about how much they really have to spend.

If you're going to be faithful to the budgeting process, you have to keep careful track of your cash on hand, and that means being sure your checkbook entries are up to date.

6. Agree on spending rules. You and your spouse need to agree on how much you can spend on purchases without consulting the other. Beyond this preset amount, you should talk about the purchase in advance and adjust your budget accordingly.

7. Create a financial plan. Everybody should have a professionally prepared plan, but for couples with polarized spending and saving habits, it's especially important.

A qualified professional can provide the expertise and tools that you are in need of. Our purpose is to serve as an impartial third party to help you defuse your money debates.

Ensure your marriage is based on financial balance and harmony. We're here to support you. Let us know of any questions you have or of any goals you are trying to meet. ❍❍❍

Corn Soufflé

(Serves 8)

This is a fantastic item to take with you to a Super Bowl party or to a family get-together. It takes five minutes to mix together, an hour in the oven, and it's ready to take with you. It's also a great complement to a delicious chili in place of corn bread.

2 cans Creamed Corn

1 pkg Jiffy Corn Muffin Mix

4 eggs (I usually let them sit out a little while before I whip them)

½ c. Canola Oil

1 c. Shredded Cheddar Cheese

Lawry's Seasoning Salt (optional)

Preheat your oven to 350. Take a large glass casserole dish (mine is 3 qt.) and add your eggs. Whip those with a whisk.

Add the oil and creamed corn. Stir until blended. Add the corn muffin mix and stir until blended. Finally, add the shredded cheese.

Sprinkle and stir in some Lawry's seasoned salt to season if you'd like. I usually sprinkle some across on the very top of the mixture, to season the "top crust" that forms. Bake uncovered for 1 hour.

I usually let it sit for 10–15 minutes before I serve it or carry it in the car. Voila! You're done.

It is very easy to halve this recipe too. Use ½ of the package of Jiffy Corn Muffin Mix and halve the rest of the ingredients as well. I use a 1.75 qt. glass casserole bowl when I halve the recipe. ❍❍❍

Investment Answers News

As 2012 comes to a close, **our office will be moving to a new location.** Our direct line phone numbers and 800# will stay the same. Only our address, main office phone line, and fax line will change. We will let you know of our address change and new phone numbers soon!

Keep in mind there are some **MAJOR tax changes coming up in 2013.** With many of our clients, we have been taking action to lower their Capital Gains tax for 2013. If no laws change, the highest Capital Gains tax rate will increase from 15% to 24% for the sale of appreciated assets not sitting inside of a qualified plan. This year, if you sold a stock that generated a $10,000 gain, the highest tax due would be 15% ($1500). In January 2013, a stock that generated a $10,000 gain would produce a 24% tax ($2400).

If you have stocks or mutual funds that have appreciated significantly over time, now may be the time to take action to take advantage of this year's tax rates. Call us to see if this is a strategy that makes sense for your portfolio.

Financial Thoughts

The average daily cost of a semiprivate room in a nursing home was $193 in 2011, up 5.7% from 2010 (Source: Genworth Financial Inc., 2012).

The current average starting salary for college graduates is $27,000, down from $30,000 in 2007. Sixty percent of college graduates graduate with student debt, with an average debt balance of $20,000. Only 40% of graduates receive a job offer upon graduating (Source: *SmartMoney*, March 2012).

Approximately 85% of older workers believe they will work past age 62, compared to 71% in 2006. However, 45% of current retirees left the work force earlier than they had planned. Currently, the average retirement age is 64 for men and 62 for women (Source: *Money*, March 2012).

Approximately 66% of individuals who work with a financial advisor know the optimal withdrawal rate from their retirement savings, compared to 36% of those who do not work with a financial advisor. Also, 38% of those who have never worked with a financial advisor believe that Social Security will provide the majority of their retirement income, compared to 19% of those who work with a financial advisor (source: *Franklin Templeton Retirement Income Strategies and Expectations Survey*, 2011). ❍❍❍