



# Your Bottom Line

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*Navigating a clear course toward your financial security.*



Warren Mackensen

## IRA Distributions Before 70<sup>1/2</sup> . . . . .

One pundit has defined retirement as: "The period of time when you trade in your high-paying job that you've hated for years in exchange for a low-paying job that you absolutely love." Another observer has said that there are basically three periods in our lives: The "go-go" years, the "go-slow" years, and the "no-go" years! Yet no matter how we view it, the reality is that the onset of retirement is an important time to revisit overall long-term cash flow planning.

Many retired people mistakenly wait until they are 70<sup>1/2</sup> years of age to begin taking Required Minimum Distributions from their IRAs or retirement accounts, fearing tax consequences if withdrawals are taken before then. However, deferring withdrawals until 70<sup>1/2</sup> may actually result in greater income taxes.

Consider that during the years from full retirement to age 70<sup>1/2</sup>, one is generally in a fairly low marginal income tax bracket. These low tax bracket years present a great opportunity to withdraw modest amounts of money from IRAs and retirement plans with the lowest potential tax repercussions. The withdrawals

may then be reinvested in regular accounts for future use.

By withdrawing some money from retirement plans between the ages of 59<sup>1/2</sup>, when withdrawal eligibility begins, and 70<sup>1/2</sup>, when Required Minimum Distributions begin, overall retirement asset balances may be reduced. The results are lower Required Minimum Distributions at age 70<sup>1/2</sup> and the possible avoidance of higher marginal tax brackets later in life.

Of course, in terms of retirement assets, taxable assets, and health issues, each person's situation is unique. A careful review is prudent when employing this tax-saving strategy. We can help you with Required Minimum Distributions and future cash flow projections. ♦

## Savings Bonds Lose Their Luster . . . . .

Although Series EE Savings Bonds are very safe securities, they will soon no longer afford inflation protection. Series EE Savings Bonds issued after April 2005 will earn fixed rates of interest. Currently, the interest rates on EE bonds are adjusted every six months over the life of the bonds. ♦

## 2005 Retirement Plan Contribution Limits . . . . .

Retirement Plan	Amount	Over Age 50
IRA & Roth IRA	\$4,000	\$4,500
401(k), 403(b), 457	\$14,000	\$18,000
SIMPLE IRA	\$10,000	\$12,000
SIMPLE 401(k)	\$10,000	\$12,000
SEP, Profit Sharing	\$42,000	\$42,000

If working for a company offering no other retirement plan, an employee may contribute up to \$10,000 per year (\$12,000 if 50 years of age or over) to an employer-sponsored Savings Incentive Match Plan for Employees (SIMPLE). The employer matches employee contributions dollar for dollar up to 3% of employee compensation. Also, compared to a Simplified Employee Pension (SEP) Plan, a SIMPLE retirement plan is especially useful for a start-up business. Whereas a SEP plan bases its contributions on a percentage of profits, a factor which may limit contributions in the lean startup years, a SIMPLE plan's limits are not affected by a company's earnings. ♦

## Credit Reports . . . . .

By September 2005, credit reports for people living in New England will be available free of charge once a year from all three credit reporting agencies. We'll keep you posted on how to obtain these reports once they are available. ♦

## Converting IRAs to Roths



David A. Batchelder

The benefit of a Roth IRA is that earnings within it are not taxed when distributions are taken. Roth IRAs are also not subject to Required Minimum Distributions at age 70<sup>1/2</sup> for the original account owner. Generally, if your modified adjusted gross income is \$100,000 or less, you may convert existing balances in a traditional IRA to a Roth IRA.

Moreover, starting in 2005, the Required Minimum Distributions taken after the age of 70<sup>1/2</sup> no longer count toward modified adjusted gross income. In specific situations, this new tax break creates opportunities for more Roth conversions, minimizing long-term tax effects associated with large retirement balances. *Caution:* In the year of the conversion, income taxes are generated on the IRA's past investment earnings and deductible contributions. ❖

## Adviser's Statement Available .....

The Investment Advisers Act of 1940 requires that all registered investment advisers offer a disclosure statement to all clients at least annually. Mackensen & Company invokes the "brochure rule" and offers our eight-page Form ADV Disclosure Statement to all clients and prospects. Call or write if you would like a copy sent to you. ❖

## Children Getting Married .....

Though the storybooks tell us "and they lived happily ever after," the reality of marriage is that there will be disagreements. And the reality of those disagreements is that most of them center on money. If your child is contemplating marriage, now is an excellent time to sit down with him/her (or the couple, if possible) and have a heart-to-heart dialogue about money.

To begin, encourage the couple to discuss individual money styles. Since one person is often a saver and the other a spender, decisions need to be made about the management of income(s) and spending, along with important issues like saving, investing, insurance and planning for common goals.

For example, will there be one or two bank accounts? Who will handle the household check-book(s)? Will each person contribute the same amount to the household account, or will it be an amount proportional to personal income? How will presents be purchased – from a joint account or from an individual one? What happens if one spouse still needs schooling, or if one spouse stays home to care for a child?

Recommend that the couple maintain a budget and track spending. With numbers in hand, joint decisions on future large expenditures may be made more easily. You may also suggest a review of each other's credit report and FICO score, which will reveal any past spending abuses. Express the importance of paying off credit cards in full each month.

Goal setting for the near-term and the long-term is also an important step to take to avoid future money disagreements. Discussions of future goals will reveal each person's level of risk tolerance and personal money priorities. It is important that each spouse contribute to a retirement plan at work, and then supplement that with more traditional retirement savings through IRAs. A newly married couple that saves between 10% and 15% of its combined gross income in a retirement plan is almost assured a comfortable retirement (with appropriate investments).

We realize that this will not be the easiest or most romantic conversation to have in the midst of the bliss of wedding plans, but it is an essential one. A couple starting out with a healthy respect for each other's money styles and the ability to communicate about money issues will have fewer financial obstructions on the road to a successful marriage. ❖

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