2010 - The Year Ahead

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Planning Makes a Difference

As women, we have the great ability to plan events and parties. In August I accepted the position of co-host/co-planner for my 25th high school reunion. (I know I am dating myself – for all of those who thought I was "30 something", please continue to do so!) I graduated in 1984 – the beginning of the material world and technology changes. How different life was. No cell phones, no internet, no email, no laptops, no GPS and no iPods. Notes to classmates were actually passed on paper! Everything has moved so fast since the days when you actually had to get up to change the television channel. My cohort, Chris, was my middle school and high school best friend. I figured that with only 45 classmates, how hard could it be? We split the duties and discovered that planning a reunion was not only a lot of work, but incredibly fulfilling. I'm still floating from the euphoria of our event.

BFFs in 1984

We asked our classmates to answer a questionnaire and send it back with updated pictures of themselves with their family so that we could create a booklet. We weren't prepared to see the accomplishments of these fine men and women. The reunion came at a time in our lives when we are taking stock of where we are. How have we made a difference in this world? Are we living the life we thought we would?

When it all came together we had 34 attendees – 22 classmates. Some driving several hours to attend. We created such a buzz. Classmates were reconnecting, sharing information and getting together. The night was full of laughter and smiles, even the spouses had a great time. It is hard to describe but Chris and I made a difference.

As a new year is upon us, it's time to get out your planner and write down your goals! A little planning can make a difference.

25 years later

New Year's Resolution Time!

I know you are cringing, but yes, it's that time of the year. If 2009 wasn't what you thought it should be, if you didn't feel like you accomplished much, or you just didn't care...now is the time to start fresh and try it again.

I often hear about the amount of paper we accumulate. What to keep. What to toss. As a financial planner, I spend my days looking at all the paper that is in the financial file cabinets of my clients. I organize, purge, analyze and categorize. And even more important...is that I like it! I live and breathe it.

Here are some tips on how long should you keep it.

Adoption Papers ~ Forever
Bank Records – statements, check registers and cancelled checks ~ Keep for three years. Store checks substantiating tax-related deductions with tax returns.
Birth Certificates ~ Forever
Custody Agreement ~ Forever
Death Certificates ~ Forever
Deeds ~ Forever
Divorce Decrees ~ Forever
Home Improvement Records ~ Until you sell the home
House Inventory ~ As long as you have the items
Income Tax Return ~ Generally 7 years with exceptions (see the link for specifics) http://www.irs.gov/businesses/small/article/0,,id=98513,00.html
IRA Records of Contributions ~ Forever
Loan Papers ~ 1 year after final payment
Marriage Certificates ~ Forever
Mortgage Papers ~ As long as you own the property
Owner's Manuals ~ As long as you own the property
Utility / Telephone Bills ~ Generally 1 year or less
Warranties ~ As long as you have the item
Wills ~ Forever

Retirement Limits

2010 Limits for Retirement Contributions

401(k), 403(b), 457(b) and SAR-SEPS	Lesser of $16,500 or 100% of participant's compensation
401(k), 403(b), 457(b) and SAR-SEPS - "Catch up" for individuals over age 50	$5,500
SIMPLE 401(k) plan and SIMPLE IRA plans	Lesser of $11,500 or 100% of participant's compensation
SIMPLE 401(k) plan and SIMPLE IRA plans - "Catch up" for individuals over age 50	$2,500
Traditional IRAs	Lesser of $5,000 or 100% of earned income
Roth IRAs	Lesser of $5,000 or 100% of earned income
IRAs (traditional and Roth) - "Catch up" for individuals over age 50	$1,000

Deductibility of Traditional IRAs

Income phase out range for determining deductibility covered by employer-sponsored plan and filing as:

Single	$56,000 - $66,000
Married filing jointly	$89,000 - $109,000
Married filing separately	$0 - $10,000
Not covered by an employer-sponsored plan, but filing joint with a spouse who is covered by an employer-sponsored retirement plan	$167,000 - $177,000

Roth IRA Compensation Limits

Income phase out range for determining ability to fund Roth IRA

Single	$105,000 - $120,000
Married filing jointly	$167,000 - $177,000
Married filing separately	$0 - $10,000
Annual income limit for determining ability to convert traditional IRA to Roth IRA	N/A

Annual gift exclusion for 2010: $13,000

IRAs - Convert or not Convert?

You may be hearing some hype around the changes in tax law that allow the conversion of IRA accounts to Roth IRAs without income limitations. The old rule only allowed individuals the ability to convert if they had modified adjusted gross income of less than or equal to $100,000. Now, for tax years after 2009, the $100,000 ceiling is eliminated and married individuals filing separately are allowed to convert as well. The benefit of converting in 2010 versus in 2011 and beyond is that the taxpayer has flexibility in spreading the taxable income over two years (2011 and 2012) which equates to spreading taxes due over the same two years.

There are many things to consider when converting an IRA to a Roth IRA (the value of the account, current and future tax rates, your age and when or if you plan to withdraw from the Roth in the future). These should be analyzed as they pertain to your specific situation and discussed with a financial advisor.

Key Strengths to having a Roth:

- Qualified distributions from the Roth IRA will be completely tax free
- For nonqualified distributions from the Roth IRA, the portion of the distribution that represents your contributions is not taxable
- You do not have to take required minimum distributions from the Roth IRA after age 70 ½
- If you use non-IRA funds to pay the income tax that results from rolling over or converting funds to a Roth IRA, those funds are removed from both your taxable estate and your countable assets
- Qualified distributions from Roth IRAs are not counted in determining the taxable portion of your Social Security benefits.

Key Tradeoffs of Converting to a Roth:

- Funds that you convert or roll over from a traditional IRA to a Roth IRA are subject to federal income tax, to the extent that such funds represent investment earnings and tax-deductible contributions to the traditional IRA
- Using IRA funds to pay the resulting income tax (the "conversion tax") has significant drawbacks
- Special penalty provisions may apply to withdrawals from Roth IRAs that contain funds converted or rolled over from traditional IRAs
- The taxable income that results from converting funds can increase the taxable portion of your Social Security benefits
- There always exists the risk of future changes in federal law governing the taxation of Roth IRA distributions.

I can help with the analysis to determine if a Roth conversion makes sense for your situation. Give me a call if you'd like to talk more about it.

Your referral is my greatest compliment. Thank you for your trust and confidence.

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