



Financial Foresights

Practical Insights For Your Financial Goals

December 2006

Swisher & Walker Financial Grp
David Walker, CFP, CSA
2150 Manchester Road
Suite 210
Wheaton, IL 60187
630-510-9500 203
dave@swisherwalker.com
swisherwalker.com

Hi Everyone!

This is my first edition of the Financial Foresights newsletter. I hope that you enjoy it and find it a useful reference.

I plan on creating a monthly newsletter for distribution via email. If you would like to continue to receive this newsletter, please contact me at my email address: dave@swisherwalker.com.

Tax season is almost upon us which means that now is a good time to review your financial situation. Call me soon to schedule your review.

I hope that you have a wonderful holiday season!

Sincerely,

Dave

In this issue:

Roth IRA Conversions in 2010

Rate Changes and Your Portfolio: Awaiting with Interest

The Pension Protection Act of 2006: What It Means to You

Ask the Experts

Roth IRA Conversions in 2010

With the lure of tax-free distributions, Roth IRAs have become popular retirement savings vehicles since their introduction in 1998. But if you're a high-income taxpayer, chances are you haven't been able to participate in the Roth revolution. Well, that's about to change.

What are the current rules?

Currently, if your modified adjusted gross income (MAGI) is greater than a specific dollar amount, you can't make annual contributions to a Roth IRA:

If your federal filing status is:	Your Roth IRA contribution is reduced if your MAGI is:	You can't contribute to a Roth IRA if your MAGI is:
Single or head of household	More than \$95,000 but less than \$110,000	\$110,000 or more
Married filing jointly or qualifying widow(er)	More than \$150,000 but less than \$160,000	\$160,000 or more
Married filing separately	More than \$0 but less than \$10,000	\$10,000 or more

Even worse, if your MAGI is greater than \$100,000, you can't convert a traditional IRA to a Roth IRA. This \$100,000 limit applies whether you're single or married filing jointly. And if you're married filing separately, you can't make a conversion at all--regardless of your income level.

What's changing?

On May 17, 2006, President Bush signed the Tax Increase Prevention and Reconciliation Act (TIPRA) into law. TIPRA repeals the \$100,000 income limit for conversions, and allows conversions by taxpayers who are married filing separately, beginning in 2010. This means that regardless of your filing status or how much you earn, you'll be able to convert a traditional IRA to a Roth IRA starting in

2010. What's more, if you make a conversion in 2010, you can report half the income from the conversion in 2011 and the other half in 2012.

While the law doesn't repeal the income limits for annual Roth contributions, there's an easy workaround. Any taxpayer, regardless of income level, can make nondeductible contributions to a traditional IRA. Beginning in 2010, you can simply make your annual contribution initially to a traditional IRA, and then convert that IRA to a Roth.

Why concern yourself with this now?

Even though the new rules don't take effect until 2010, there are steps you can take now if you want to maximize the amount you'll be able to convert at that time.

For example, if you're not already making the maximum contribution to a traditional IRA, consider doing so. As noted above, you can make nondeductible contributions to a traditional IRA no matter how much you earn--up to \$4,000 in 2006, \$5,000 if you're age 50 or older. And your nondeductible contributions won't be subject to tax when you convert the IRA to a Roth in 2010--only the earnings will be taxed upon conversion. (The tax calculation is a bit more complicated if you've made both deductible and nondeductible IRA contributions.)

And don't forget that SEP and SIMPLE IRAs can also be converted to Roth IRAs. Consider maximizing your contributions to these plans now, and convert the IRAs to Roths in 2010.

Is a Roth conversion right for you?

The answer depends on many factors, including your income tax rate, the length of time you can invest the funds without withdrawals, your state's tax laws, and how you'll pay the income taxes due on the conversion. A financial professional can help you decide whether a Roth IRA is right for you, and help you plan for this exciting new retirement savings opportunity.



The bond seesaw

Why do bond prices tend to go up when interest rates go down, and vice versa?

Because whenever interest rates are falling, bonds that are issued today will typically pay a lower interest rate than a similar bond that was issued when rates were higher. That means that older bonds with higher coupons are more valuable to investors, who are willing to pay a higher price to get that greater income stream. The opposite is true when interest rates are rising.

Rate Changes and Your Portfolio: Awaiting with Interest

Over the last two years, we've grown used to rising interest rates. Ever since mid-2004, the Federal Reserve Board has regularly increased the federal funds target rate. However, that pace has begun to moderate. It's not necessarily safe to assume that interest rates will be flat or drop, but it's no longer a given that they'll automatically go up, either. What does this mean when it comes to your portfolio?

Balance bond yields and values

As interest rates rose, you may have noticed that the prices of any bonds you own probably dropped. That's because bond prices tend to move in the opposite direction of interest rates; when rates go up, prices go down, and vice versa. More stable interest rates should also translate into more stable bond prices.

If you own short-term bonds, U.S. Treasury bills, or a short-term bond mutual fund, you might talk with your financial professional about whether the current interest-rate outlook represents an opportunity to diversify into intermediate or longer-term maturities that offer a higher yield.

However, be aware that if interest rates continue to rise, longer-term bonds will feel the impact on prices more than short-term bonds will. A drop in value could eliminate the advantage of any increased yield. Also, you'll need to think about the yield curve: the difference between the yield on short-term securities and the yield on long-term securities. Is the difference great enough to compensate you for the additional risk of a longer-term security?

Take stock of your situation

Whenever interest rates begin to flatten out, it's usually because the Fed believes the economy has begun to slow. That has implications for the stock portion of your portfolio.

Consider how you've balanced your stock portfolio. Think about whether you own stocks that might be especially sensitive to a slowing economy and possible cutbacks in spending by consumers. Will people be traveling as much? Will they be buying new homes, cars, or appliances? Conversely, are there companies or industries that you think will do well given the current economic and interest rate environment? Are there companies whose products or services are relatively insensitive to interest rates, whose prospects depend

more on their own execution, or that might actually benefit if the economy were to slow?

Another area to consider is dividend yields. If income is your primary investment focus, is the dividend rate from your stocks competitive with bond yields? Has your tax situation changed? If so, does your new status have any implications for your preference for capital gains, dividends, or interest payments?

Remember the rest of the world

Interest rates also can affect the strength of the dollar compared to other currencies. If the dollar weakens, that could favor U.S. companies that do much of their business overseas. It also might mean it's time to reexamine the balance between your U.S. and international holdings. However, be careful; in some cases, stock mutual funds devote part of their holdings to foreign companies. That could mean that the portion of your portfolio that's in foreign investments might be larger than you realize.



Consider your asset allocation

This might also be a good time to reexamine how your assets are divided among various types of investments. If you're concerned about stability, you could increase the amount you've invested in bonds or cash. If you feel confident that you can ride out any volatility and are more focused on long-term growth, you might keep an eye on stocks you'd like to buy, especially if they're available at bargain prices. It's a good idea to periodically revisit your asset allocation. The end of the year, combined with a possible shift in the Fed's outlook, could provide an opportune time to take a broad look at your portfolio.

If you decide changes are needed, you can make gradual alterations by:

- Adjusting only a portion of your bond or stock holdings
- Shifting allocations over a period of time, using dollar-cost averaging
- Directing only new money into assets that may benefit from current interest rates

The Pension Protection Act of 2006: What It Means to You

In August, President Bush signed the Pension Protection Act of 2006 into law. While much of the news coverage has focused on provisions of the Act that shore up the nation's pension system, the Act includes many other important provisions you should know about.

Rollovers by nonspouse beneficiaries

Currently, nonspouse beneficiaries who inherit a participant's 401(k), 403(b), or 457 plan account can't roll those funds over to an IRA--rollovers are available only to spouses. And while the law generally lets nonspouse beneficiaries take distributions over their lifetimes after a participant dies, employer plans aren't required to offer that option. Nonspouse beneficiaries are often forced to take a distribution from the plan sooner than they like, and sooner than the law requires. Starting in 2007, the Act fixes this problem by letting nonspouse beneficiaries roll over funds to an "inherited" IRA, allowing them to defer taxes by spreading distributions from the IRA over the maximum period the law allows.



Hardship withdrawals

Currently, if you participate in a 401(k), 403(b), 457, or nonqualified deferred compensation plan, you can (if the plan permits) make an in-service withdrawal if you, your spouse, or your dependents incur a financial hardship. Under the Act, your employer can now also let you make a withdrawal if your beneficiary incurs a hardship. This provision, along with the nonspouse rollover rule discussed above, may be especially helpful for domestic partners.

Direct rollovers to Roth IRAs

Under current law, if you receive a distribution from a qualified plan, 403(b), or 457 plan, you can't roll those funds directly to a Roth IRA. You can, however, accomplish this indirectly by first rolling the funds over to a traditional IRA, and then converting the traditional IRA to a Roth IRA (assuming you meet the income limits for a conversion). Starting in 2008, the Act streamlines this two-step process, allowing direct rollovers from 403(b), 457, and qualified plans to Roth IRAs.

Phased retirement distributions

As the baby boom generation begins to retire, some experts are warning that employers may begin facing a shortage of skilled workers. To address this issue, some employers have established "phased retirement" programs that encourage you to continue working on a part-time basis. You benefit by having a smoother transition from full-time employment to retirement, and your employer benefits by retaining the services of a talented employee. Starting in 2007, the Act supports these arrangements by allowing pension plans to begin paying benefits after you reach age 62, even though you're still working part-time.

Repeal of sunset provisions

The Act makes permanent a number of important retirement and education provisions that had been scheduled to expire after 2010, including tax-free distributions from Section 529 plans, increased IRA and retirement plan contribution limits, catch-up contributions, Roth 401(k)s, and many others. The Act also makes the Saver's Credit permanent.

Charitable contributions from IRAs

If you're age 70½, the Act allows you to make charitable contributions of up to \$100,000 per year directly from an IRA to a qualified charity in 2006 and 2007. These IRA distributions are tax free, don't increase your adjusted gross income (AGI), and satisfy minimum distribution requirements.

And even more 2007 changes

In addition, beginning in 2007, the Act:

- Adjusts the income limits that apply to IRA contributions and the Saver's Credit for inflation
- Applies the faster vesting rules that currently apply only to employer matching contributions to all employer contributions to 401(k) and other defined contribution plans
- Allows direct deposit of tax refunds to IRAs
- Requires certain plans that invest in employer stock to offer participants at least three alternative investment options

Your financial professional can provide you with additional information about this landmark legislation, and can help you determine how the new law impacts you.



While much of the news coverage has focused on provisions of the Act that shore up the nation's pension system, the Act includes many other important provisions you should know about.

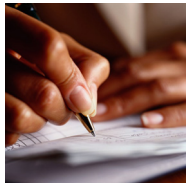


Swisher & Walker Financial Grp
David Walker, CFP, CSA
2150 Manchester Road
Suite 210
Wheaton, IL 60187
630-510-9500 203
dave@swisherwalker.com
swisherwalker.com

Neither Forefield Inc. nor Forefield Advisor provides legal, taxation, or investment advice. All content provided by Forefield is protected by copyright. Forefield claims no liability for any modifications to its content and/or information provided by other sources.

Copyright 2006 Forefield Inc.
All Rights Reserved.

Ask the Experts



How does an UGMA/UTMA custodial account work?

An UGMA/UTMA custodial account is a special type of account that allows a minor child to legally hold money or other property, such as stock or real estate, that the child would not otherwise be able to hold in his or her own name. It's governed by a particular state's Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA). Most states have enacted an UTMA because it allows for more types of property to be held in the account, and the account can remain open longer than with an UGMA.

A custodial account can easily be opened at a bank or other financial institution using a common form. Central to the operation of a custodial account is the custodian, who is responsible for contributing money or property to the account, managing these assets, and withdrawing from the account when necessary. Typically, the custodian is the parent, but it's possible for another person or even a bank (for a fee) to act as the custodian.

Custodial accounts have several unique features. Any money or property placed in the account is considered an irrevocable gift to the child. (Gifts qualify for the federal annual gift tax exclusion, which means you can gift \$12,000 per year to the account without incurring gift tax.) Withdrawals from the account can only be made for the child's benefit.

Any income earned by assets in the account is taxed to the child under the "kiddie tax" rules--for children under age 18, the first \$850 of investment income is tax exempt, the next \$850 of investment income is taxed at the child's rate (usually 10%), and anything over \$1,700 is taxed at the parent's rate. For children 18 and older, the first \$850 of investment income is tax exempt, and anything over \$850 is taxed at the child's rate.

When the child reaches the relevant age (generally 21 or 25 for UTMA accounts, and 18 for UGMA accounts) the custodianship ends and the child receives sole control of all the assets in the account.

How does an UGMA/UTMA custodial account compare to a 529 plan when saving for college?

Both an UGMA/UTMA custodial account and a 529 plan can be used to save for college. But after comparing a few key features, the 529 plan probably comes out ahead.

Taxes--Income in a 529 plan grows tax deferred, and withdrawals used to pay college expenses are completely tax free at the federal level (and possibly at the state level too). But any income earned by assets in a custodial account (for a child under age 18) is taxed under the "kiddie tax" rules--the first \$850 is tax exempt, the next \$850 is taxed at the child's rate (usually 10%), and anything over \$1,700 is taxed at the parent's rate.

Investment flexibility--With a custodial account, you have complete control over the investments you decide to place in the account (assuming you're the custodian). But with a 529 plan, you're limited to the investment offerings preselected by the plan.

Control--Assets contributed to a custodial account are considered irrevocable gifts to

your child. Second, withdrawals can only be made for your child's benefit, not yours. And once your child reaches age 21 or 25 (for UTMA accounts) or age 18 (for UGMA accounts), the custodianship ends and your child receives sole control of all assets in the account. This is a drawback for some parents who believe their child may not use the money for college. By contrast, as account owner of a 529 plan, you can change the beneficiary at any time, you control the funds all the time, and you can withdraw money for purposes besides college (though you will pay a 10% federal penalty on the earnings portion).

Financial aid--Under the federal aid formula, 529 plans are considered a parent's asset (if the parent is the account owner) while custodial accounts are considered a child's asset, a less favorable classification. This is because children must use 35% of their assets for college expenses (20% starting July 1, 2007), but parents must use only 5.6% of theirs.