Financial Planning News

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New College Savings Plan Available in Illinois

Illinois has introduced a new plan for college savings, called Bright Directions. It's similar to the Bright Start 529 plan, but the funds are only available through brokers and investment advisors.

Two aspects of this new program are particularly appealing. First, the quality of the available funds is better than in the old program. Many are rated 4 or 5 stars by Morningstar. Second, the annual expenses are lower.

Mentor has agreed to participate in this program primarily as a service to our clients, although as a courtesy we will help others enroll for a nominal $100 fee. Although many brokers charge a commission, Mentor is a fee-only firm and receives no commissions for any of the products we recommend.

529 Plans are a tax-sheltered way of saving for higher education costs, including tuition, fees, books, room and board. Investments grow tax-free and may qualify for a deduction on your Illinois state income tax. Qualified withdrawals are also free from state and federal income taxation.

Whether you are planning for a young child's college or thinking of advancing your own education, this plan is worth considering.

Retirement Can Be Golden, When Proper Plans Are Laid

Retirement is a process, not a lifestyle.

I say this because people who quit work to enjoy their golden years seldom live the lifestyles they would choose unless they have invested substantial thought and action in planning for financial independence.

It's not through luck that your neighbor was able to quit work at age 60 to travel, golf and learn to juggle. It's not because of the generosity of the federal government's Social Security program that your friend's parents spend summers in Wisconsin and winters in Arizona. It's probably because early on they identified their goals and worked hard to reach those goals.

Retirement can never be seen as an event isolated from the rest of our financial lives. It is one goal among many. Many of us want to invest for our children's college education, buy a bigger house, start a business, take a vacation. Retirement must be seen in light of these other issues and ranked accordingly.

For young people (age 22-40) who probably don't know what their lifestyle (and therefore their need for income) will be at retirement, I recommend investing as much as they can afford to invest, but only after they have established an appropriate cash reserve and have put into place insurance coverages for their property and lives.

For those closer to retirement (age 41-70), a more thorough analysis must be done, using variables such as inflation, rates of return, life expectancy and specific income needs.

Anyone considering retirement as a goal should defer enough into an em-

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Tax Diversification Made Easier By New Tax Law

In last month's newsletter, we talked about the benefits of "tax diversification" with your retirement savings – owning both pre-tax and tax-free savings in an effort to hedge against the risk of tax changes in retirement.

The Roth IRA is a great way for many people to build up tax-free retirement savings. However, under previous tax laws, only taxpayers with income below certain levels were eligible to contribute to a Roth IRA, or to convert a traditional IRA to a Roth IRA.

The Tax Increase Prevention & Reconciliation Act (TIPRA), signed into law in May of this year, removes the income limit, thereby, enabling even high-income individuals to convert traditional IRAs to Roth IRAs. However, this does not take effect until 2010. Starting in 2010, taxpayers of any income levels may elect to convert their IRAs. In addition, while previous tax laws did not allow married taxpayers filing separately to convert, TIPRA removes that restriction.

A conversion of a traditional IRA

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Golden Retirement

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ployer's qualified plan to receive any matching contribution available. Beyond that, Roth IRAs should be considered for their ability to generate tax-free income and for their estate-planning attributes. If there is a need (and resources available) for additional investing, higher contributions to an employer's plan or investments in a non-qualified account are appropriate.

I never recommend variable annuities or variable life insurance contracts as retirement vehicles, due to their high selling costs. Fixed annuities and cash-value life insurance with a fixed-income component can be appropriate under some circumstances.

Three factors are in our favor as we make plans to retire comfortably: Time, the stock market and the federal government.

- ♦ If we start early enough, we have plenty of time – perhaps 40 years or more – to invest and to compound our earnings.
- ♦ Historically the stock market has provided investors with returns substantially higher than the combined effects of taxes and inflation. If we have the risk tolerance and the time, our money can be made to work very hard for us, reducing the necessity to contribute our own capital.
- ♦ George W. and Congress have provided us with many incentives. The law has encouraged employers to establish tax-qualified retirement plans for our benefit and have given us, as individuals, numerous tax-advantaged opportunities to save and invest for retirement.

It is important for us to think about retirement, and to act. If we're hoping our children, or the government, will take care of us, we're bound to be sorely disappointed.

Tax Diversification

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to a Roth IRA is a taxable event – any previously deducted contributions, pretax rollovers, and earnings are subject to federal income tax in the year of conversion. However, under TIPRA, taxpayers who convert in 2010 may choose to include the conversion income in 2010, or to recognize one-half of the income in 2011 and the other half in 2012. (For conversions made after 2010, income must be recognized in the year the conversion is made.)

High-income taxpayers should consider making non-deductible contributions to traditional IRAs starting this year, in anticipation of converting those balances to Roth IRAs starting in 2010.

Many factors should be carefully considered before you decide whether to take advantage of this new tax law. Mentor Capital can help you with this process as part of our comprehensive financial planning services.

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