

The pros and cons of rolling your retirement-plan money into an IRA

When you leave a job where you have money invested in a defined contribution plan such as a 401k, or 403b you have the option of rolling that money into a personal IRA account. Should you do so?

At Mentor, we frequently address this issue with new clients. Often such investments from old jobs have sat neglected in the account for years. The owner either was unaware of the options or simply didn't have any better idea of what to do.

The simple answer is that, yes, a rollover often makes sense. But you should be aware of the pros and cons before making a decision.

Rollover advantages

◆ Most retirement account investment options are fairly limited. Sometimes they consist of variable annuities,

which carry high fees and reduce your return, or company stock, which may be illiquid. By contrast, an IRA can be opened at a brokerage firm, giving you an almost unlimited array of investment options. Even a large mutual fund family such as Fidelity or Vanguard generally offers many more low-cost choices.

◆ Rules governing the old account are controlled by your former employer and you must go through them for information or to make changes.

Rollover disadvantages

◆ IRA owners must begin taking distributions in the year they turn 70½. Retirement plans usually don't have this requirement.

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How to hide credit info from nosy lenders

Beginning in 2007, Illinois residents may take advantage of a new law that allows them to place a security freeze on their credit reports. Unfortunately for our Georgia clients, a recent proposal to implement such a law was defeated by state lawmakers.

For those of you in Illinois, the new law prohibits credit bureaus from releasing your credit file information without your permission. Before this year, only victims of

identity theft were allowed to place such a freeze.

Placing a security freeze on your credit reports makes it tougher for identity thieves to obtain credit in your name. To place the freeze, you must send a written request, via certified mail, to each of the three major credit bureaus (Equifax, TransUnion, and Experian). You can then use a unique PIN number to temporarily lift the freeze when you want to apply for credit. There may be a charge for doing so.

The credit freeze process is free to Illinois residents over the age of 65 and to those who have been victims of identity theft. Other Illinois residents must pay \$10 per transaction (in other words, \$30 for all three major bureaus), whether to place a freeze or permanently remove it.

More information is available at www.illinoisattorneygeneral.gov.

Editorial

A philanthropic life puts wealth to good use around the world

By John S. Davis

Around the dinner table recently, we were discussing the "outrageous" level of compensation among corporate leaders. It had just been announced that Lloyd Blankfein, chairman and CEO of Goldman Sachs Group Inc., was expected to receive a \$25 million bonus on top of his \$19 million annual salary.

A family member asserted that the accumulation of wealth and power in fewer hands is damaging our global society. He averred that the economic chasm is widening between the haves and the have-nots, accentuating the differences among people of the world rather than bringing those people together.

My response was that such accumulation is not inherently bad. It can be good, when it is present in a truly philanthropic life.

Such a life is by no means rare in our society. I was amazed when I read recently of the Bill and Melinda Gates Foundation's intent to give all its money away no later than 50 years following the death of its longest-serving trustee. The foundation – with assets of more than \$32 billion and a pledge from Warren Buffett for \$31 billion more, is doing good all over the world. It has used its resources globally to initiate programs aimed at improving health and economic development, and in the United States to improve education and increase access to technology in libraries.

We have no idea what Mr. Blankfein does with his money – and it's really none of our business. Free enterprise – the ability to enjoy the fruits of our labors – is basic in our society. We can only hope that he is

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Tax Tip

Alimony can be used to fund an IRA

Normally, IRA contributions are limited to your earned income. Investment income, gifts, etc. may not be used for this. However, the IRS treats alimony like earned income for IRA contribution purposes. They are still subject to the usual limitation of \$4,000 a year (\$5,000 if 50 or older).

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◆ Unless you hire an investment manager such as Mentor, there is now a greater onus on you to choose and monitor your investments.

◆ Retirement plans are protected from creditor claims, while IRAs may not be, depending on your state.

IRS rollover rules

Any money taken out of a retirement account is a distribution and will be a tax-free rollover if it meets the IRS requirements. The best way to do this is called a trustee-to-trustee transfer because the money never passes through your hands.

Alternatively, you can take out the money and then put it into an IRA within 60 days. But the company must withhold 20% in taxes. To accomplish a fully tax-free rollover you would then have to make up this 20% out of your

own pocket. And, if you miss the deadline, the entire amount is taxable.

Taxable distributions are taxed at your ordinary income rates and additionally subject to a 10% premature withdrawal penalty if you are less than 59 ½ years old.

Philanthropic

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as generous giving it away as he is successful in earning it.

The family member who complained about “greedy” corporate leaders said someone should rein in “excessive” compensation. No mention of who, or what standards should be used.

The fact is, the rest of the world’s perception of the United States as stingy is wrong, according to Arthur Brooks, associate professor of public administration and director of the non-profit studies program at Syracuse University. In an address last year at the Heritage foundation in Washington, D.C., he cited data that show that

Americans are significantly more generous than citizens of other countries.

Brooks said that 70 percent of American households make charitable contributions. On average, they give \$1,800 per year, or 3.5 percent of their income. This amounts to about \$180 billion. Foundations, bequests and corporations add \$60 billion, for a total of more than \$240 billion in charitable contributions annually in the United States.

Critics say Brooks’ figures are skewed because givers in the U.S. receive a tax break for their contributions. A tax deduction certainly makes giving easier. However, a tax deduction is never equal to the donation. Whether 100 percent or 72 percent of the donation is altruistic is not the point. American still are extremely generous with their money.

We Americans give generously of our time and money. We do live philanthropic lives. Because of such generosity, our communities are better places to live.

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