



CHOOSING THE RIGHT PLAN

The tax law allowing the Roth IRA has caused certain dilemmas over which retirement plan to choose. Of course deciding to use a Roth IRA is not as simple as it seems. You probably have at least two retirement plans to choose from, maybe more. There is more than one way of calculating which plan will yield the most, and you may need the help of a financial advisor.

The basic rules for the Roth IRA are clear. Individuals can contribute up to \$4,000 a year and \$8,000 for married couples in 2007. This limit increases to \$5,000 and \$10,000 for 2008. The money is not tax deductible, so funding this plan is based on after tax dollars. The full contribution is available to single individuals with adjusted gross incomes under \$99,000 and couples under \$156,000. Single individuals can make partial contributions on incomes up to \$114,000 and couples can make partial contributes if their income does not exceed \$166,000.

You can take out your own contribution, tax-free, anytime you want. You also get the earnings tax-free if you hold the IRA at least five years and withdraw the money under one of the following circumstances:

- You are 59½, or older.
- You withdraw up to \$10,000 to buy a first home
- You become disabled
- Your heirs receive proceeds upon your death

Should you use the Roth IRA instead of some other retirement plan? The following considerations may help.

SELF-EMPLOYED

There is a variety of tax-deductible plans available for the self-employed. A simplified plan (SEP), a Keogh plan and a Simple IRA. All of them allow larger contributions than you are allowed with a Roth IRA.

If you can afford to, you should consider putting the maximum into a deductible plan and funding a Roth.

If you cannot fund two plans in full, it may be to your benefit to set aside the first \$4,000 in a Roth account.

If you are in the same tax bracket when you retire, the Roth IRA is generally more advantageous than the tax-deductible plan.

As in all retirement plans, the younger you are and the sooner you start investing - the better.

This information is not intended to be a substitute for specific individualized tax, legal, or investment planning advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.



EMPLOYEES WITH A 401(K) PLAN

If the company matches the money you put in, invest enough to get the maximum match.

If you can afford to, put the maximum match in your 401(k) and fully fund the Roth.

If you do not get an employer match, consider putting up to \$4,000 of your retirement contribution into a Roth IRA and the rest into your 401(k).

ROTH 401(k)

Your Roth choices have expanded since changes that took effect for plan years beginning on or after January 1, 2006. Employers may now offer a Roth 401(k) feature, which combines certain advantages of the Roth IRA with the convenience of 401(k) plan elective deferral-style contributions.

A qualified Roth contribution program means a program under which an employee may elect to make designated Roth contributions in lieu of all or a portion of elective deferrals that the employee is otherwise eligible to make. Regulations set forth the following requirements for designated Roth contributions: (1) the contribution must be designated irrevocably by the employee at the time of the cash or deferred election as a designated Roth contribution, (2) the contribution must be treated by the employer as includable in the employee's income at the time the employee would have received the amount in cash, were it not for the election (i.e., it must be treated as subject to applicable withholding requirements), and (3) the contribution must be maintained by the plan in a separate account.

The requirements for Roth 401(k) plans were enacted by EGTRRA 2001, but took effect January 1, 2006. The Pension Protection Act of 2006 made the provision of Roth 401(k) permanent, effectively removing the sunset scheduled for 2010 in EGTRRA.

THE BEST CHOICE

Those who favor Roth accounts tend to believe that their income and tax rate upon retirement will not be significantly lower than at present and are willing to prepay tax on income they invest to gain the tax free status on withdrawals and earnings in later years. Additionally, they recognize the advantage of allowing the investment to grow without any required distribution.

Conversely, those who usually favor traditional IRA accounts believe that they can contribute more because of the immediate deferment of the income tax and believe that their income and tax rate may be lower upon retirement or age 70 ½ when they will be required to take distributions.

So, which is really the better choice? You need to make sure you have the discipline to start saving today for your retirement. Take advantage of every opportunity you can to contribute to that retirement nest egg.

Source: Tax Facts 2007, National Underwriter Company Financial Planning Consultants, Inc.

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