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Fee-Only Financial Planning and Investment Planning

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Tax day has come and gone (for most of us), but you have an opportunity to do something in 2010 that may affect your taxes in retirement! Read about the special 2010 Roth conversion rules.

Enjoy the spring and stay On Course with your retirement savings! See you next month.

-Jennifer Lane, CFP

Roth IRA Conversion

This could be your chance to save taxes in retirement by converting your traditional IRA accounts to the Roth IRA.

Starting this year, Congress removed the income limits for individuals converting their traditional IRA accounts to a Roth IRAs. You'll owe income tax on the transferred amount, but there are some good reasons to make the transfer and pay the tax now.

First of all:

- Future withdrawals from your Roth will be tax-free -- with a few exceptions, because if there weren't, this wouldn't be tax law, right? :)
- You can defer withdrawing money from your Roth IRA longer than you can a traditional IRA -- beyond age 70 1/2. This can be a huge tax planning opportunity as you get older.
- Special for 2010 you can choose to pay the tax due on the coversion over 2011 and 2012.

Consider a Roth conversion if:

- You're in a lower tax bracket this year than you think you'll be in retirement.
- Most (more than half) your retirement nest egg is in tax-deferred accounts like IRA, 401(k), 403(b), or 457 plans.
- You don't expect to use your whole nest egg in retirement and want to leave an inheritance for your family.

Two websites have calculators that can help you make the decision: www.dinkytown.com and www.calcxml.com. If you still don't feel comfortable making that decision, we can help.

Don't miss your chance to contribute to your Roth IRA

If your earned income, with a few modifications, is under the contribution limit, you can contribute a limited amount to your Roth IRA each tax year. This is a use-it-or-lose-it chance, so if you're eligible, it's important to try to make the deposit. In 2010, you can contribute $5,000. Taxpayers age 50 and older can contribute $6,000.

Single filer's income must be below $105,000 to make the full contribution. A lesser amount is allowed for incomes between $105,000 and $120,000. Income for taxpayers who file married filing jointly must be below $167,000 for the full contribution with lesser amounts allowed for incomes up to $120,000.

Roth IRA contributions are great gift idea for kids and grandkids. If your child worked in 2010, you can help them open and fund an account.

In This Issue

Jennifer's Hint

IRAs can incur two types of fees, trustee fees, and investment-related costs. The investment's prospectus outlines the investment fees, which can include sales commissions, management fees, and a "12-b1" marketing fee. Protect your IRA from fees by considering commission-free, no-load mutual funds and by paying trustee fees out-of-pocket instead of having them withdrawn from your IRA.
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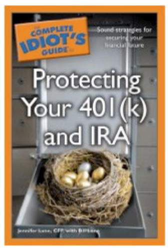
Get more tips in Jennifer's book



(click for link)

Helpful Websites

Dinkytown.com

calcxml.com

napfa.org

Q&A

Q: I heard you say that the loss from ROTH IRA can be deducted from income tax if you close the accounts. I closed my Roth IRA and my wife's Roth IRA accounts in 2009 because we had losses of $4000 each. I'm using online tax software to complete our tax return, and I am not sure how to take the loss from ROTH IRA (i.e. what form to use, is it schedule D or some special form?). I'd appreciate your help.
-Prasad -- NECN viewer

A: You can deduct a loss on a Roth IRA by closing all of your Roth IRA accounts. The IRS doesn't distinguish between multiple investment accounts so it may seem that you have more than one Roth IRA, but in IRS-world they're considered one account. You're eligible for the loss - which you claim as a miscellaneous itemized deduction subject to 2% of your adjusted gross income limit - so long as the remaining value in the account is less than your total contributions (also called your basis).

Check out the IRS's Publication 590 for more info. See http://www.irs.gov/publications/p590/ch02.html#en_US_publink1000231083

What's New

On April 21, 2010, Jennifer presented a webinar session on Financial Literacy and Entrepreneurship as part of a series of webinars the Small Business Administration (SBA) has done in conjunction with National Financial Literacy Month.

Jennifer was named a 2010 FIVE STAR Wealth Manager. She scored highest in overall client satisfaction, making her part of a very select top seven percent of wealth managers in the greater Boston area.

Jennifer answered questions from two WalletPop readers recently -- one on her 2010 tax bill and another about her employer's 401(k) plan.

In March, Jennifer appeared on two WGN-TV shows in Chicago, first with Larry Potash for early morning news and later with Monica Schneider.

Compass Planning Associates helps families, individuals, and small-business clients achieve financial security, knowledge, and control over their money. Our **fee-only, client-centered approach** provides education and guidance for achieving financial goals and dreams.