COMPASS PLANNING ASSOCIATES
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Fee-Only Financial Planning and Investment Planning

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Welcome! With April 17 fast approaching, make sure you plan to put as much as you can into your retirement funds. It helps two ways. First, you can lower your taxes. Second, you invest in your own retirement. The earlier you start saving and the more you put away, the better!

This month, we'll take a look at personal retirement accounts and how you can use them. Have any questions? Remember we're here to help you stay *On Course!*

-Jennifer Lane, CFP

Tax Day - Not Just for Uncle Sam

No matter what your age, spend time planning and saving for retirement. Even if you have a 401(k) or 403(b) at work, you have some additional options for personal retirement accounts that you should consider.

Basic Account Rules

These rules generally apply to both IRAs and Roth IRAs

- Any interest and dividends you earn are tax-free while the money is in the account.
- Strict rules affect withdrawals.
- Your income may limit your eligibility.
- You can contribute the maximum amount to either an IRA or a Roth but not to both.
- Financial Calculators has a tool to help you decide which IRA is right for you.

Traditional IRA

- You can contribute up to $5,000. If you are over age 50, you can contribute an additional $1,000 as a catch up amount.
- The $5,000 (or $6,000) is usually tax deductible unless you have a work 401(k) or 403(b). Check here to see what the 2011 and 2012 contribution and deduction limits are.
- You can decide whether to invest the money in mutual funds, brokerage, or CDs. This gives you more control and may save on fees in comparison to a work-related account.
- You ***can*** begin withdrawals at age 59 1/2 and you ***must*** begin withdrawals at age 70 1/2.
- Withdrawals prior to age 59 1/2 are subject to penalties.
- For all the IRS rules, visit their website.

Roth IRA

Potentially, the best choice for a personal retirement account if you're eligible.

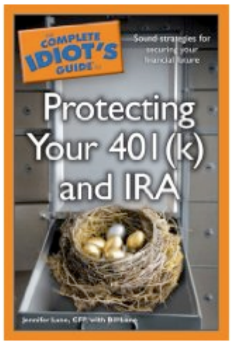
- Same limit as traditional IRA: $5,000 or $6,000.
- The money you contribute is after tax, so you do not receive a tax deduction.
- That said, the money you withdraw from the account is tax-free.
- Income limitations for contributing to a Roth IRA are $170,000 for married couples filing jointly and $122,000 for those who are single.
- The IRS has a calculator to help you decide whether to switch money from your traditional IRA to a Roth.

In This Issue

Jennifer's Hint

If you're inheriting a Roth IRA and you're under age 59 1/2, you are eligible to take money from the Roth tax-free as long as the account has met the five-year rule.

Get more tips in Jennifer's book



(click here for link)

Helpful Websites

IRS

Morningstar

- You need to decide if you think your tax rate will be higher when you retire. Some financial planners believe that they will be; others do not. In addition, remember that if you will be using money from tax-deferred accounts, that amount will be subject to taxes, which may increase your tax rate.

Q&A

Q: My new job is offering an account in addition to my regular 401(k). They say I can contribute the same amount as the 401(k) and still get a tax deduction. What's the catch?
-- Caleb, Watertown

A: Good for you, Caleb, there is a catch, which isn't to say it's not a good idea. You do need some more information. This is a deferred compensation plan or a non-qualified plan. A non-qualified plan is exposed to the company's creditors. So you have to trust that your company is still going to be around when you take the money and will not have to use it to pay off its creditors in bankruptcy, for example. When you sign up, they will ask you when you want to withdraw the money. So choose your payout option with care. Most people decide to take it in retirement, but you can have it paid out over several years after you leave the company. The potential downside to that is whether or not your taxes will be high when you leave. For example, you may receive severance pay. You may want to take the deferred compensation all the way to retirement but remember it's then exposed to the creditors of the company. All in all, a tough decision to make so take the time to think it through.

What's New

- Jennifer's Compass. Jennifer recently discussed mixing money and love on NECN . Click here to watch the segment on her blog.
- We now have a Facebook page. Visit www.facebook.com/AskJennifer and like us!
- Jennifer appears on NECN every other Monday morning at 9:30 am in addition to her Tuesday 5:00 pm and 6:30 pm appearances.

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.