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FINANCIAL ink

Your Money Management Newsletter

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*Snap***SHOTS**

401(k) CONCERNS

One of the biggest worries for American workers regarding their 401(k) and 403(b) plans is cuts to their employer match.

Concerned that employer plan match will be reduced or eliminated

Source: *Consumer Reports Money Adviser*, September 2009

Up **FRONT**

$64

The average amount that baby boomers spent daily in 2009, down from $98 in 2008.

Source: Gallup, 2009

Quick **HITS**

In mid-2009, 87% of Americans reported that they had adjusted their financial behavior over the previous several months, including saving more and spending less.[1]

Fifty-three percent of Americans oppose additional government regulation of the U.S. financial system.[2]

Households with annual incomes above $100,000 control nearly $1.4 trillion in retirement assets that are eligible to be converted to a Roth IRA beginning in 2010.[3]

More than half of investors think about their finances daily; 27% did so before the market downturn.[4]

In 2007, 4.2 million taxpayers were subject to the alternative minimum tax, which was initially enacted to target wealthy taxpayers who were paying little or no federal income taxes.[5]

Sources:
1) The Pew Research Center, 2009
2) RasmussenReports.com, September 17, 2009
3) *InvestmentNews*, January 30, 2009
4) *Journal of Financial Planning*, October 2009
5) Tax Policy Center, 2009 (latest data available)

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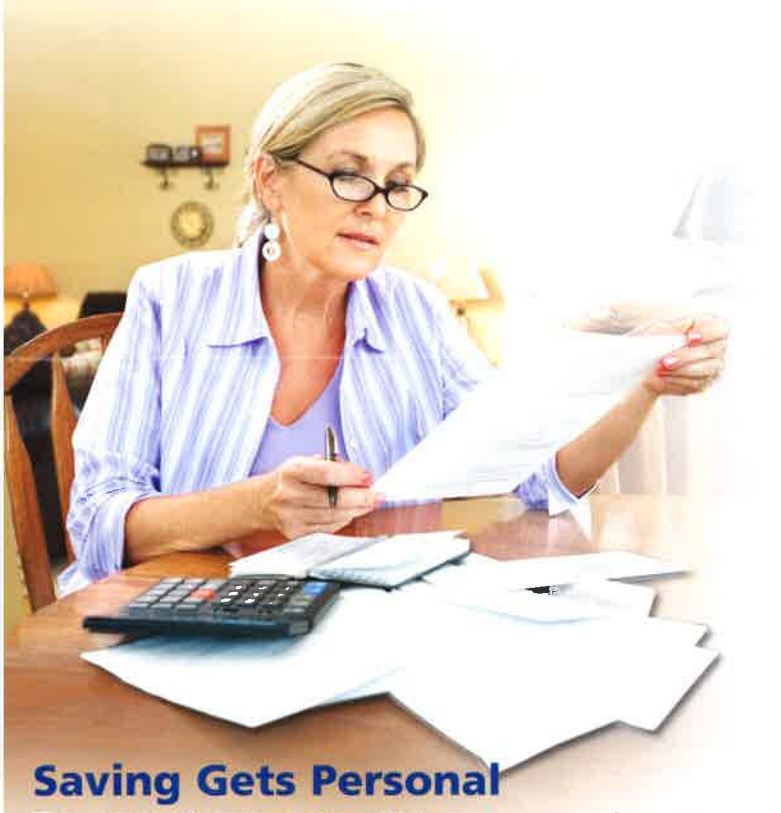
Practical insights for your **FINANCIAL GOALS**

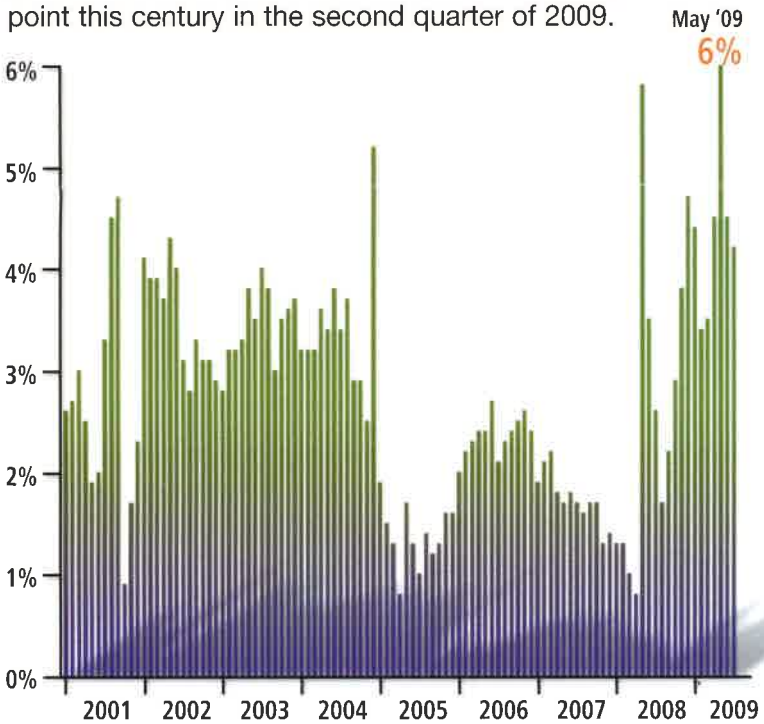
Are You Making These **CASH MISTAKES?**

A majority of Americans reported cutting back on their spending in 2009. Fifty-six percent said they were eating in restaurants less often, 59% were spending less on vacations, and 36% postponed an auto purchase. In all, 76% said they had cut back in at least one area.[1]



Saving Gets Personal

The personal saving rate, which measures saving as a percentage of disposable income, reached its highest point this century in the second quarter of 2009.



Source: Bureau of Economic Analysis, 2009

So it's not surprising that the personal saving rate has been running higher than normal. It even hit 6% in May 2009, the highest point during this century.[2]

Spending less and saving more is always a good idea, but what should you do with the money you save? Here are some common mistakes to avoid if you have been stockpiling your cash.

LOCKING IT IN TOO LONG

Certificates of deposit are a popular place to park money for the short term, but locking in your cash for years when rates are low means you may not be able to change course if conditions improve. Although inflation has been fairly low, many economists believe it could make a resurgence in the next few years. Inflation is bad news for consumers but good news for fixed-income investors because they can benefit when interest rates rise. If you want to put your cash in CDs, consider those with shorter maturities; they pay lower interest rates but don't carry a high opportunity cost. FDIC-insured CDs generally provide a fixed rate of return.

NOT PAYING OFF DEBT

If you have significant personal debt, it's usually a good idea to pay it down before you start building a cash reserve. Although you probably shouldn't send every last penny to your creditors, keep in mind that interest expenses actually slow your ability to save money. The sooner you pay off your debts, the more you can devote to building the cash in your portfolio.

PLAYING IT TOO SAFE

FDIC-insured savings accounts offer a safer way to preserve your principal, usually in exchange for a low return. In fact, the long-term effects of taxes and inflation could actually reduce your money's spending power over the long term. A little money in the bank is essential, but it may be a good idea to put larger sums to work.

It may be comforting to have a cash position, but keeping too much in cash alternatives could result in a lower-than-expected nest egg. If you've got some cash on the sidelines, consider whether it's working hard enough to help you pursue your future goals.

1) The Pew Research Center, 2009
2) Bureau of Economic Analysis, 2009

New Year Brings New Rules for ROTH IRA CONVERSIONS

If your household income exceeds $100,000 a year, the new year comes with a new opportunity. Starting in 2010, you become eligible to convert retirement plan assets to a Roth IRA, regardless of your income. Plus, if you make the conversion in 2010, you have the option of spreading the taxes over a two-year period.

By converting assets from a tax-deferred retirement plan to a Roth IRA, you pay the income taxes in the year of the conversion at today's rates, but future qualified withdrawals will be free of income taxes in retirement.

COME ONE, COME ALL

Prior to 2010, Roth conversions were available only to households with annual incomes of $100,000 or less. It is important to note that the income eligibility limits to contribute to a Roth are still in place. So even though you may be eligible to convert to a Roth, you may not necessarily be eligible to contribute to one.

SPLIT THE TAX BILL

Typically, income taxes are owed on funds converted to a Roth IRA in the tax year in which they are converted. However, for 2010 conversions only, you have the option of paying no tax in 2010 but rather half the tax in 2011 and the other half in 2012.

Of course, there are a couple of factors to consider with a Roth IRA conversion. If you pay the conversion taxes owed using some of the tax-deferred money, you will be subject to a 10% federal income tax penalty if you are younger than 59½. So it's generally wise to pay the taxes from nonretirement assets. Also, if you choose to defer the tax until 2011 and 2012, you should be aware that federal income tax rates are scheduled to revert to pre-2001 tax-law rates after 2010, so waiting could translate to a higher overall tax bill.

If the idea of a large tax hit is off-putting, you are free to do a partial conversion or to spread conversions out over several years.

The prospect of tax-free withdrawals in retirement may be particularly enticing if you believe, as many people do, that tax rates are bound to go higher. You may also be attracted by the fact that there are no required minimum distributions from a Roth IRA after age 70½, as there are with tax-deferred retirement plans. This means you can leave the account untouched for as long as you desire. If you leave a Roth to your heirs, they can also withdraw the money without tax consequences.

To qualify for a tax-free and penalty-free withdrawal of earnings, a Roth account (including funds converted to a Roth) must be in place for at least five tax years, and the distribution must take place after age 59½ or as a result of death, disability, or a first-time home purchase ($10,000 lifetime maximum). Before you take any specific action, be sure to consult with your tax professional.

IRA Market Still Largely Traditional

In 2009, Roth IRAs made up a small but growing portion of the entire IRA market. With increased eligibility for Roth conversions starting in 2010, who knows how many more people will own Roth IRAs in the future?

Type of IRA owned	U.S. households (in millions)	Percentage of households
Traditional	37.5	32.1%
Roth	18.6	15.9%
SEP / SARSEP / SIMPLE	10	8.6%
Any IRA	47.3*	40.5%

*Some households have more than one type of IRA.

Source: *USA Today*, September 1, 2009

Patching the **ALTERNATIVE MINIMUM TAX**

By 2010, the Treasury Department expects that 39% of married couples with children will have to pay the alternative minimum tax (AMT).[1] That seems a far cry from when the tax was originally introduced four decades ago as a way to prevent the wealthiest families from using tax loopholes to pay little or no income tax.

The AMT requires a different set of calculations from the regular income tax. For example, it doesn't allow the standard deduction or personal exemptions. Additionally, miscellaneous itemized deductions are not allowed, and special rules apply to medical expenses, home mortgage interest, and other common deductions.

Because the AMT is not indexed to inflation, it affects more middle-class families each year. For several years, Congress has favored last-minute patches that raise the exemption amount for AMT eligibility, enacting temporary rather than meaningful reform. In 2007, even with the higher exemption amount, 4.2 million taxpayers were on the hook for the AMT.[2] Without the patch, the figure would have been much higher.

The patch for 2009 raised the exemption amounts to $70,950 for married taxpayers filing jointly and $46,700 for single taxpayers. Congress will have to act again if it intends to spare a significant number of middle-class taxpayers from the levy in 2010.

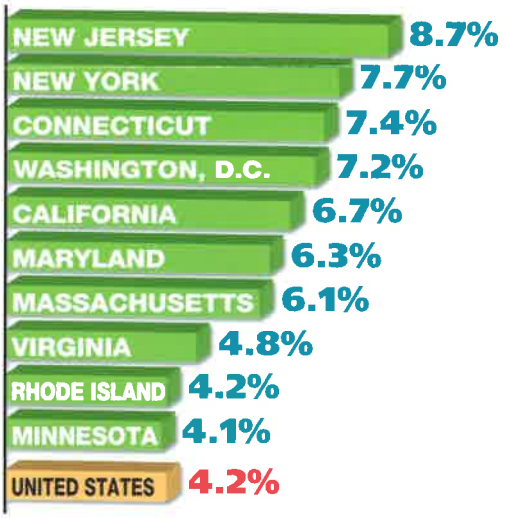
The future of the AMT is uncertain, yet it is important to consider the possible effects of the AMT on your tax situation. Before you take any specific action, be sure to consult with your tax professional.

1) Kiplinger.com, 2008
2) Tax Policy Center, 2009 (latest figures available)

Not All States the Same

Because the AMT does not allow deductions for state and local income taxes and property taxes, taxpayers in high-tax states are more likely to get hit by the tax. In New Jersey, for example, 8.7% of taxpayers were subject to the AMT in 2007.

Percentage of taxpayers subject to AMT



Source: Tax Policy Center, 2009

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Have you been waiting for 2010 in order to convert retirement plan assets to a Roth IRA? Call today to discuss Roth conversions and other ways to help meet your retirement goals.

Working toward a better financial future,