

ConsumerSense

Easing the Tax Burden

Although the stress of tax season is over, the sting of the tax bill may still be fresh in your mind. Right now is a good time to plan for next year. Consider ways to ease the burden like investing in a tax advantaged account, such as an Individual Retirement Account (IRA) or 401(k) plan. Even if you're already contributing to an employer-sponsored plan, you may be eligible to deduct a portion of your IRA contributions depending on your adjusted gross income (AGI).

Retirement Planning

According to the IRS, 401(k) plans are the most popular type of retirement plans used today. Under 401(k) provisions, employees elect to have a portion of their wages withheld and contributed to the plan on a pre-tax basis. The two main advantages of participating in a 401(k) plan are that elective deferrals and investment gains are not subject to federal income taxes until they are distributed from the plan and deferrals are always 100% vested. If you are not contributing to a 401(k) plan, confirm with your employer as to whether or not a plan is offered. Your company's retirement plan may be a major source of retirement income for you in the future.

Tax Advantaged Accounts

IRAs are retirement accounts with other tax advantages. You may contribute up to \$5,000 in 2008. A catch-up provision is an added benefit for those ages 50 and older; if you qualify, you can continue to add an extra \$1,000 annually. These accounts grow tax-free until you begin making withdrawals, usually after age 59 ½. If you decide to withdrawal funds before age 59 ½, you may be subject to a 10 percent penalty by the IRS.

According to the IRS, contributions you make to an IRA may be fully or partially deductible, depending on which type of IRA you have and your circumstances. Generally, amounts in

your IRA (including earnings and gains) are not taxed until distributed. In some cases, amounts are not taxed at all if distributed according to the rules.

Reaching out to Your Credit Union's Financial Professionals

Talk to your financial professional about the different types of tax advantaged accounts. He or she may be able to assist you in determining which of these plans fit your unique situation without reducing your financial goals. To schedule an appointment with one of our investment representatives, ask a branch representative or go to our credit union website.

*For specific tax advice, please consult a qualified tax professional.

Source: www.irs.gov; Refer to IRS Publication 590 for specific deduction information

Have You Read...

Retirement Planning: Your Complete Retirement Planning Road Map: The Leave-Nothing-to-Chance, Worry-Free, All-Systems-Go Guide
by Ed Slott

Author gives aging baby boomers a guide to the tricky process of managing and accessing their retirement funds while avoiding costly missteps.

Prime Numbers

AMERICAN SAVINGS

Excluding homes and pension plans, 36% of American workers have less than \$10,000 in savings and investment. At the other extreme, 12% of workers have over \$250,000 in savings and investments. (Source: Employee Benefit Research Institute).

BOOMER SPENDING

In an online survey of 1,100 people aged 43 to 62, 45% said they were not happy with the amount of money on which they had to live. In addition, 86% said they expected to be more pragmatic and practical about their spending when they reached 70. (Source: InvestmentNews April 14, 2008).

RETIREES OVERSPENDING

28% of retirees withdraw 10% or more from their retirement savings each year. Most financial advisers suggest that clients take out no more than 4% or 5% of their assets each year in retirement. (Source: Retirement Survey, Wachovia Corp).

TRUST ISSUE

When asked about the mutual fund industry, 71% of investors said they had a lack of trust or were uncertain whether to trust the fund industry. In contrast, 87% said they had a high level of trust in their advisor, comparable to their level of trust in their family physician. (Source: IShares Funds).

Generation X Pessimism

Forty-three percent of Americans age 27 to 42 say they will never be able to retire fully while another 26% say they are uncertain about their retirement prospects. (Source: Scottrade/BetterInvesting Survey)

In Layman's Terms

A Frequently Asked Question & Answer from Craig Layman

Q: A friend suggested using a Roth IRA to fund my child's education. Is this smart?

A: It could be an effective means of saving for your child's education or supplementing another means of saving for your child's education. Roth IRAs work better in this capacity for older parents, as they may be able to take advantage of tax-free earnings.

You should take time to understand how a Roth IRA may fit into your overall planning. The Roth IRA allows you to contribute up to \$5,000 (\$6,000 if you are over 50), subject to certain income limitations, to an account that will grow tax free. For some families, \$5,000 will be more than they can contribute annually toward their child's education while others may want to contribute more. Depending upon your situation, you may need your IRA contribution to count toward your retirement.

You should also consider the tax implications of using your Roth as an education account. If you are under 59 ½ at the time the money is to be withdrawn, you can only withdraw the money that you contributed to the account (none of the earnings) without paying taxes and penalty.

If you are 59 ½ or older at the time the money is withdrawn and the account is over 5 years old you may withdraw everything without taxes or penalty.

The Roth might be a good fit if it is questionable that your child will continue education after high school. The two most popular education savings accounts today are the 529 Plan and the Coverdell Education IRA. Both of these accounts will require taxes and penalties on earnings of the account if you do not use the funds for education. In the event a Roth which has been dedicated for education funding use is not used for that purpose, it can continue to grow tax-free and be used in retirement.

In summary, a Roth IRA can be withdrawn for any purpose, including education, and may avoid taxes and penalties under certain circumstances. It is best used as an education savings alternative when parents are older and at least one will be 59 ½ when the money is withdrawn. A desired annual contribution of \$5,000 or less and questionable post-secondary education funding make a Roth a possibility to consider.

Complimentary DVD Available!

If you would like to receive a complimentary DVD explaining Long-Term Care, we would be happy to send one to you. Simply call 413.256.5580 or email investments@umassfive.org

Interested in learning more?

Our financial advisors specialize in helping people maintain a healthy financial balance and discover smart money strategies. Call us to schedule an appointment to review your investment objectives and to discuss any questions you might have. We look forward to speaking with you!



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Do you have a topic you'd like to see in *Advisor* newsletters? Email your comments to: investments@umassfive.org



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**For specific tax advice, consult a qualified tax professional.