In This Issue...

Determining How Much to Save in Your 401(k) Plan
IRA Myths and Facts
Should You Consolidate Your Retirement Accounts?
Converting to a Roth IRA
Business Data
News and Announcements

PRO TAX
FINANCIAL SERVICES

761 S. Stapley Drive
Mesa, AZ 85204
Phone (480) 464-1040
Fax (480) 464-2306
Email protax@cox.net

Matthew T. Penkert, CFP®

Pro Tax is a Registered Investment Advisory firm with the Arizona Securities Division. Please contact Pro Tax Financial Services at (480) 464-1040 if you would like an updated copy of the Form ADV part II.

Financial Briefs

WINTER 2015/2016

Determining How Much to Save in Your 401(k) Plan

How much should you save in your 401(k) plan? As much as you can seems like a pretty good answer. Of course, life isn't that simple. Saving as much as possible is a laudable goal, but it doesn't exactly qualify as planning. To make sure you're on track for retirement, you should have an idea of how much you need to set aside to reach your retirement goal.

Know Your Limits

Before you start coming up with an annual savings target, it's important to understand how much you're allowed to contribute to a 401(k) plan. In 2015 and 2016, workers younger than 50 can save $18,000 in a 401(k), 403(b), or similar plan, while those age 50 or older can save $24,000 annually, an extra $6,000 per year.

Those contribution limits apply to tax-deductible 401(k) contributions. Some plans may allow you to make after-tax contributions above and beyond that amount. The total limit on contributions (a combination of what you save and what your employer contributes on your behalf) is $53,000 annually for individuals under 50 and $59,000 annually for those age 50 or older.

Contribution limits often go up slightly every year (they increased from $17,500 in 2014 to $18,000 in 2015); so if you're an aggressive saver, you'll also want to adjust accordingly.

At a Minimum, Get Your Match

The first rule of 401(k) plans is to save enough to get your full employer match. You've probably heard it before, but not contributing enough to get your employer's matching contributions is like leaving free money on the table. Even if you're not impressed with your company's 401(k) plan and would prefer to save in some other way, it still makes sense to at least get the match.

But How Much Do I Really Need?

So you know how much the government will let you save and that you should be contributing enough to get your employer match.

Continued on page 2

IRA Myths and Facts

IRAs are a valuable retirement planning tool, but misconceptions can lead people to not take full advantage of them. Below we review some of the common IRA myths.

Myth #1: You invest in an IRA. This myth is really a matter of semantics. People often talk about investing in an IRA, but that's not quite right. An IRA is a type of account that receives special tax treatment. Once you open the account, you choose specific investments.

Myth #2: I can't contribute to my IRA and 401(k) plan at the same time. There is no prohibition against saving money in both your 401(k) plan and IRA during the same year. As a general rule, you can contribute up to $18,000 to a 401(k) and $5,500 to an IRA in 2015 and 2016, plus catch-up contributions of $6,000 and $1,000 respectively, if you are age 50 or over. However, if your income exceeds certain limits, your IRA contribution may not be fully deductible, though you can still make nondeductible contributions to your account. Also, if you make more than $193,000 if married or $131,000 if single in 2015 ($194,000 and $132,000 respectively in 2016), you aren't eligible to make contributions to a Roth IRA.

Myth #3: My 401(k) plan alone will be enough for retirement. Saving in a 401(k) plan is an important first step to preparing for retirement (and is especially important if your employer matches a portion of your contributions), but it may not be enough. Even if you max out your 401(k) savings, that may not generate the income you need in retirement. Contributing to an IRA

Continued on page 3

Copyright © Integrated Concepts 2015. Some articles in this newsletter were prepared by Integrated Concepts, a separate, nonaffiliated business entity. This newsletter intends to offer factual and up-to-date information on the subjects discussed, but should not be regarded as a complete analysis of these subjects. The appropriate professional advisers should be consulted before implementing any options presented. No party assumes liability for any loss or damage resulting from errors or omissions or reliance on or use of this material.

FR2015-0811-0001

Determining How Much

Continued from page 1

But how much should you be setting aside to prepare yourself for a comfortable retirement? That's the ultimate question.

Unfortunately, there's no magic number, because every individual situation is different. People have different tolerances for risk, market performance varies over time, and everyone has their own idea of an ideal retirement. That's why it's best to talk to a financial advisor who can help you determine how much you need. In the meantime, there are a few rules of thumb that may help you get a sense of where you stand.

Some experts use a simple formula based on your age and salary to give people a rough idea of how much they'll need to save. Here it is:

- By age 35, your savings should total at least your annual salary.
- By age 45, your savings should total at least three times your annual salary.
- By age 55, your savings should total at least five times your annual salary.
- By age 67, your savings should total at least eight times your annual salary.

In other words, if you earn $75,000 a year at age 35, you should have at least that much saved in your 401(k) and other retirement accounts. If your salary hits $125,000 annually by age 67, you'll need $1 million. But if you're earning less at age 67 — say $80,000 a year — $640,000 might be enough. Also keep in mind you'll need to make sure your spouse is saving enough for retirement if you're married.

Another guideline suggests saving a certain percentage of your salary every year for retirement. Between 10% and 15% is usually the recommended number. If you started saving when you were young, your target savings percentage is usually lower; but if you procrastinated, you're more likely to be looking at having to save 15% or even 20% of your pay to get you on track to a comfortable retirement. The good news is your employer match counts in that number, so if your goal is to save 10% and your employer match is 5%, you only need to save an additional 5% of your pay to reach that 20% total.

Again, these retirement savings rules are only guidelines. To really find out how much you need to save in your 401(k) plan and other retirement accounts, please feel free to call and discuss this in more detail.

Should You Consolidate Your Retirement Accounts?

The average person born between 1957 and 1964 held 12 jobs between the ages of 18 and 48, according to data from the Bureau of Labor Statistics. Many younger workers — millennials and Gen Xers — can expect to have that many jobs, if not more. With workers of all ages staying at jobs for an average of just 4.4 years, many people are building a collection of retirement accounts.

That can create some challenges. For one, job hoppers may end up with less in savings as they lose out on employer-matching contributions by leaving before they're fully vested, cashing out savings when they leave an employer, or having to wait to be eligible to participate in an employer's plan. Another big challenge is what to do with all those different accounts.

The Case for Consolidation: Simplicity

If you have multiple 401(k) plans, there are a few good reasons to consolidate. One is that it simplifies recordkeeping. When you can restrict yourself to just one or two retirement accounts, you'll receive fewer account statements and have less paperwork to file. You'll easily be able to tell how much you have saved, since you'll only need to look at the balances for one or two accounts. Finally, when it comes time to take required minimum distributions in retirement, you can easily determine how much you need to take, rather than having to total up the balances in half a dozen accounts or more.

The Case for Consolidation: Better Planning

By having just one or two accounts, you will be better able to ensure your assets are invested in an appropriate way and determine that you're on track to reach your retirement goals.

If your money is in a previous employer's 401(k) plan, you don't have much of a choice about who the account custodian is, the investments you can choose, or how much you pay in fees. That's a problem, since not all 401(k) plans are created equal. Some have alarmingly high fees, or some may not have the range of investment choices you want.

Even if you're happy with the investment choices and fees in an old 401(k) plan, keeping those assets separate from your other retirement savings could cause problems. You might inadvertently end up with a riskier portfolio than you would like because of the way you're invested. Once you reach retirement, you'll be better able to track your total wealth and stick to sustainable withdrawals if all your money is in one place.

I Can't Find My Money

The money you contributed to a 401(k) plan is still yours, even if you've forgotten about it. But what if you no longer have paperwork relating to the account or you're not sure if you even have an account with a previous employer? In that case, ferreting out your lost savings can be a bit more challenging.

One possible option is to reach out to your former employer and try to find out what happened to your retirement benefits. You can also contact the National Registry of Unclaimed Retirement Benefits.

Please call if you'd like to discuss this in more detail.

IRA Myths and Facts

Continued from page 1

on top of your 401(k) plan can create additional retirement security and may be especially important if you have a high income or had a late start on saving in the first place.

Myth #4: I can't deduct my IRA contributions, so it's not worth contributing at all. As mentioned above, once you reach a certain income level, you can no longer deduct your IRA contributions from your federal income taxes. That may discourage some people from contributing at all. But even contributions you can't deduct can be a valuable source of retirement savings. Even if you've lost your ability to contribute to a traditional IRA, you may still be able to contribute to a Roth IRA. Money placed in a Roth IRA isn't deductible in the year you contribute, but earnings grow tax free, giving you a tax-free source of retirement income.

Myth #5: I make too much money to contribute to a Roth IRA. As we outlined above, higher-income individuals lose their ability to make direct contributions to a Roth IRA. But there's a way around those restrictions. It's called a backdoor Roth IRA; here's how it works. In 2010, the IRS relaxed IRA conversion rules allowing anyone, regardless of income, to convert a traditional IRA to a Roth IRA. You simply make nondeductible contributions to an IRA and then roll those contributions into a Roth IRA. One catch: For tax reasons, this strategy works best if you don't already have money in a traditional IRA.

Myth #6: It doesn't matter who you name as a beneficiary for your IRA. You may think that if you have a will or other estate planning documents in place, you don't need to pay much attention to the names on your IRA beneficiary forms. That's a misconception that can cause serious problems for your heirs. Why? Because beneficiary designations override your will. Even if you leave your entire estate to your wife, if your children from a previous marriage are listed as your IRA beneficiaries, they'll receive those assets. That's why it's important to regularly review your beneficiary designations and make sure they're in line with your overall estate plan.

Please call if you'd like to discuss this in more detail.

Converting to a Roth IRA

Roth IRAs are a valuable retirement planning tool, as they offer a source of tax-free income after you retire. And since the federal government relaxed conversion rules in 2010, even high-income earners have been able convert to Roth IRAs. But despite some advantages, Roth IRA conversions aren't right for everyone.

What Is a Roth IRA Conversion?

In simplest terms, a Roth conversion involves changing the tax treatment of your retirement savings. Generally, contributions to a traditional IRA are tax deductible in the year you make them (contributions may be allowed but not deductible if your income exceeds certain limits). The money you contribute grows over time; and when you start making withdrawals in retirement, you pay taxes on the money you take out.

Contributions to Roth IRAs, on the other hand, aren't tax deductible in the year they are made. But earnings grow tax free; and when you withdraw the money, you don't pay any federal income taxes. A Roth IRA conversion involves taking funds from a traditional IRA, paying tax on any previously untaxed funds, and then putting the funds in a Roth IRA so that you can have tax-free income in retirement.

Roth IRA Conversion Pros

For anyone who suspects they may be in a higher tax bracket in retirement, converting to a Roth IRA may be appealing. Roth IRA conversions may also be a smart move if the value of your IRA has recently dropped because you'll pay less tax on the conversion, or if you have other deductions or credits you can claim to help offset the tax on the converted amount. If you're young and in a relatively low tax bracket, Roth IRAs are also advantageous since you won't get much of a tax break from current deductible contributions and your taxes are likely to be higher in the future.

People who have significant assets may also use Roth IRA conversions as an estate-planning tool. If your other assets will be sufficient for your retirement income needs and you don't anticipate a need to make withdrawals from your Roth IRA during your lifetime, you may want to use it as a way to leave tax-free income to your heirs. Since there are no required minimum distributions from a Roth IRA, the money can grow undisturbed during your lifetime, plus the distributions to your heirs should be free of income tax.

Roth IRA Conversion Cons

When is it not a good idea to convert to a Roth IRA? If the steep tax bill required for converting makes you squirm, a Roth IRA conversion may not be for you. After all, if you're in the 28% tax bracket and convert a $100,000 IRA, you'll owe $28,000 in taxes. Most experts also recommend using cash to pay the tax on conversion to avoid depleting your retirement savings. Paying the taxes with cash is especially critical if you are under age 59½, since using money from your IRA to pay the tax will result in a 10% penalty on the amount that's not rolled over into the Roth IRA. Likewise, if you plan on spending the Roth funds early on in retirement (within five years of the conversion), you may not have enough time for earnings in the Roth IRA to make up for taxes paid on the conversion.

Please call if you'd like to discuss this in more detail.

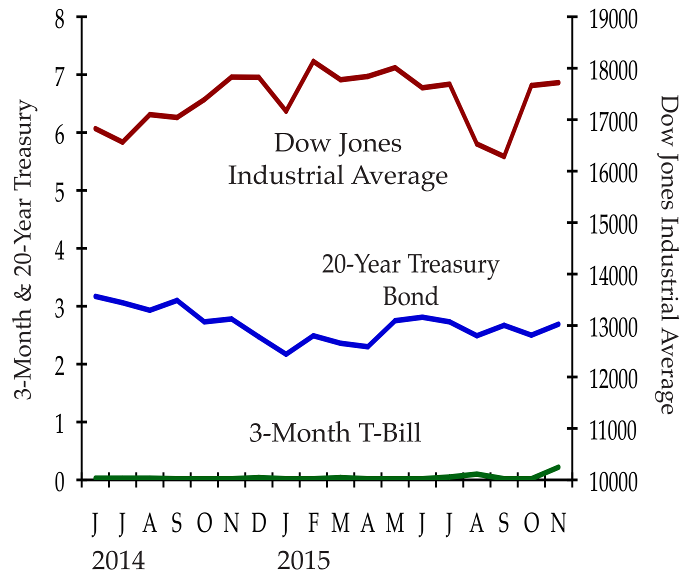
Business Data

Indicator	Month-end Sep-15	Oct-15	Nov-15	Dec-14	Nov-14
Prime rate	3.25	3.25	3.25	3.25	3.25
3-month T-bill yield	0.02	0.02	0.22	0.04	0.02
10-year T-note yield	2.22	2.06	2.26	2.14	2.33
20-year T-bond yield	2.67	2.50	2.69	2.47	2.78
Dow Jones Corp.	3.26	3.30	3.37	3.08	2.89
GDP (adj. annual rate)#	+0.60	+3.90	+2.10	+2.20	+5.00

Indicator	Month-end Sep-15	Oct-15	Nov-15	% Change YTD	12 Mon.
Dow Jones Industrials	16284.70	17663.54	17719.92	-0.6%	-0.6%
Standard & Poor's 500	1920.03	2079.36	2080.41	1.0%	0.6%
Nasdaq Composite	4620.16	5053.75	5108.67	7.9%	6.6%
Gold	1114.00	1142.35	1061.90	-11.5%	-10.2%
Unemployment rate@	5.10	5.10	5.00	-13.8%	-13.8%
Consumer price index@	238.30	237.90	237.80	0.7%	0.2%
Index of leading ind.@	123.50	123.30	124.10	17.6%	18.3%

— 1st, 2nd, 3rd quarter @ — Aug, Sep, Oct Sources: *Barron's*, *Wall Street Journal*
Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield
June 2014 to November 2015



News and Announcements

Protect Your 401(k) Plan with Annual Reviews

Reviewing your 401(k) plan on an annual basis helps make sure your plan is on the proper course. Here are three steps to use when reviewing your 401(k) plan:

- **Consider your goals** — Keep your financial goals in mind as you review your 401(k) plan. Have you experienced life changes that affect your goals? Has your income or family situation changed? Do any of these changes require adjustments to your 401(k) plan?
- **Consider your contributions** — If your company offers matching contributions, one of the biggest mistakes you can make is not to contribute enough to take advantage of the full matching amount. As part of your review process, create a detailed annual budget and actively look for ways to contribute more income to your 401(k) plan. Or resolve to put any pay increases directly into your plan before you find ways to spend the additional money.
- **Consider rebalancing** — Most 401(k) plans have a wide variety of investment options, so you should be able to broadly diversify your holdings. Don't invest too much in your company stock. Take a look at all of the plan's investment options, reviewing their historical performance. Compare that to your investments and decide whether any changes are needed. There are no tax consequences to making investment changes within your 401(k) plan.

Please call if you'd like help reviewing your 401(k) plan.

FR2015-0811-0001