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Here Are 6 Common Roth IRA Mistakes To Avoid

Make no mistake about it: The Roth IRA is one of the most powerful – and most popular – retirement planning vehicles to come down the pike.

Payouts you take from a Roth that you set up at least five years ago are completely exempt from federal income tax once you reach age 59½. Withdrawals you take even earlier still may be tax-free, at least in part, under generous IRS “ordering rules” (although a 10% tax penalty may apply). Finally, unlike a traditional IRA, a Roth IRA doesn’t require you to take out any money during your lifetime.

Yet despite all of these potential benefits, Roth IRAs, which have been around since 1998, still may not be used as widely as they could be, and those who have Roths may not use them to their full advantage.

Here are six common mistakes involving Roth IRAs:

Mistake #1: You think you’re not eligible for contributions.

There are annual income limits on eligibility for contributing to a Roth IRA that are based on your modified adjusted gross income (MAGI), or the joint MAGI of you and your spouse. But you still may qualify for a full or partial contribution. And even if you don’t, you could put money into a traditional IRA and then transfer that money into a Roth. Since 2010 there have been no income limits on

conversions from traditional IRAs to Roths. You will have to pay tax on the converted amount if you got a tax deduction on your contribution to the traditional IRA.

Mistake #2: You think it’s too costly to convert to a Roth.



There is that tax price to pay for a conversion, but it might not be as steep as you think. What’s more, a conversion doesn’t have to be an all-or-nothing proposition. A better idea is to

use tax bracket management. For instance, suppose you’re normally in the 25% bracket and you have \$250,000 in a traditional IRA. If you transferred the entire \$250,000 this year, part of it would be taxed at rates well above 25%. However, by converting only the amount that will take you to the upper threshold of the 25% bracket, you can avoid paying at a higher rate. Then you could convert the rest in later years.

Mistake #3: You make an excess contribution to a Roth.

Watch out for the annual limits for Roth contributions. You’re normally allowed to contribute up to \$5,500 a year if you’re under age 50. For contributors age 50 or older, the annual limit is \$6,500. But it’s easy to exceed either limit if you’re not careful, especially if you contribute at several intervals during the year. The penalty for an excess contribution is equal to

Water Damage

It’s amazing how much damage water causes when it’s in the wrong place. Unfortunately, many people in the area know this firsthand after the flood of 2013. But small-scale events can be a problem, too. Colleen experienced this firsthand when a laundry sink overflowed. The following weeks involved five fans that sounded like jet engines, the floor and a section of kitchen cabinets ripped out, the refrigerator living in the dining room, and finally five days in a hotel while the floors were refinished. This kind of damage (accidental discharge or overflow of water or steam) is covered by standard homeowner’s insurance and luckily Colleen’s claim was paid with no problem. However, it made us think about a kind of water damage that may not be covered by insurance.

Standard homeowner’s insurance specifically excludes water that overflows from sumps, sump pumps, or related equipment or water that backs up through sewers or drains. However, this type of event is not an uncommon occurrence and well, yuck, it’s sewer water.

If your policy doesn’t cover sewer backup damage, you can add an endorsement for coverage. Over our many years of financial planning, we have suggested this to numerous clients.

Ask your home insurance agent if you’re covered!

Colleen & Rob

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Show More Life With A Living Trust

In some financial circles, a revocable living trust has been touted as a staple of estate planning that can even be used to replace a legally valid will. Normally, however, a living trust is viewed as a supplement to a will, not an outright replacement. Here's how this estate-planning technique may serve you best—in life and death:

It's important to understand the basic differences between a will and a living trust. Your "last will and testament" is a legal document determining how, when, and to whom your possessions will be distributed upon your death. It doesn't have any effect until you die. However, a will normally must go through probate before distributions are made. (Property passing through joint rights of survivorship may be one exception to that rule.)

In addition, a will alone may not achieve all of your estate-planning objectives. For instance, you can't impose any conditions on gifts made through a will.

A revocable living trust also is a legally valid document, and you may be able to transfer securities, real estate, or other property to the trust,

and you can give the trustee power to manage it on behalf of the designated beneficiaries. Typically, you might name yourself as both the trustee and the initial beneficiary of the trust. At the same time, you can designate other family members—say, your spouse, your children, or both—as secondary beneficiaries entitled to receive remaining assets in the trust when it terminates.



With a living trust, you'll retain a high level of control while you're alive. For instance, you may be able to sell trust assets and keep the cash, amend the terms of the trust (for example, by changing secondary beneficiaries), or revoke it entirely.

Unlike a will, a living trust allows you to place restrictions on gifts to beneficiaries. The trust becomes irrevocable when you die.

The main advantage living trusts have over wills is that the property transferred to the trust doesn't have to go through probate. Depending on the state in which you live, probate can be time-consuming. In addition, unlike a will, a living trust isn't available to public inspection, ensuring complete privacy with respect to the assets it holds and distributes.

But don't assume that a living trust is a panacea. It will require some time and work on your part to make all of the necessary arrangements. Also, if you devise a "pour-over will" to catch assets not in the living trust, the will must be probated anyway. Finally, despite some claims to the contrary, there are no estate-tax

benefits for property transferred to a living trust.

Clearly, a living trust may provide valuable benefits, but it usually works best hand in hand with your will. We can help you work with your attorneys to find a solution that works for you. ●

5 Tasty Tips For A Spending Diet

Whether it's the holidays, vacation season, or any other time of the year when you take your spending up a notch, the aftermath can be sobering. Credit card bills and bank statements arrive. Suddenly, you feel bloated—and resolve to cut some of the fat from your budget. These five steps could help you go on a spending diet to improve your financial health:

1. Count the "calories." Where is the extra weight really coming from? Before you can trim expenses, you need to know what they are. But documenting every single item can be tedious and nerve-racking. For many

people, a better option is to make a list, based on your statements, that provides a ballpark estimate. Then you can determine what percentage of income goes toward necessities, such as housing and food costs, and what is discretionary. Aim to save at least 20% by cutting back on the luxuries.

2. Focus on the "meat and potatoes." Don't ignore those major monthly costs—your mortgage, car loans, and insurance premiums. Look for ways you can spend less on these "fixed" items. For instance, it might make sense to refinance the mortgage and shop for less expensive auto insurance. Similarly, you might be able

to reduce commuting costs by carpooling or switching to mass transportation.

3. Stick to the daily regimen. Just like you can't lose weight by starving one day and splurging the next, a savings diet requires a regular routine. Consider the impact of cutting your daily spending by an average of \$3 or \$4. That could add up to more than \$100 a month, and over \$1,200 a year. Small changes can multiply into a much bigger impact.

4. Give yourself an occasional break. Even if you're watching your spending waistline, you don't have to be good all the time. If you enjoy some

Choosing An Assisted Living Facility

Do you have elderly parents or in-laws who still live alone? They may have started to show signs of needing assistance on a regular basis, and before the situation becomes dire—with a fall resulting in a broken hip or worse,—it makes sense to investigate other living options for them. One popular choice is an assisted-living facility, or ALF.

As the name implies, an ALF is a residence that provides assistance with daily living activities such as cooking, cleaning, laundry, and transportation to doctor appointments. Set-ups vary widely, with some centers offering a range of accommodations on the grounds, from standalone homes to small, studio apartment-like units with scaled-down kitchens and living areas. Residents can usually choose how much help they receive, and are often self-reliant for most of their needs. Typically, a facility will offer security and around-the-clock access to healthcare as well as a full schedule of meals and recreational activities.

It's seldom easy to convince parents who are still mentally competent to pull up stakes and move to an ALF. They may hate the idea of moving away from friends and family, and dread going somewhere that will mean losing much of their independence. And they may have unrealistic expectations about

what their new lives will be like. Though ALFs are designed to provide residents with essential services, the staff isn't there to wait on people hand and foot.

Because one ALF may be very different from another, finding a good fit may take considerable research. The range of costs is wide, from as little as \$25,000 a year to more than \$100,000 annually in some parts of the country. And while long-term care insurance may help with expenses for several years, most long-term care policies have a cap on total payouts and years of payment.

In exploring the pros and cons of facilities in a particular area, consider these questions:

What is the staff like? As important as the physical amenities are, the people may make even more of a difference. Look for a place whose staff members appear genuinely interested in residents, have the requisite qualifications and experience, and seem well equipped to handle emergencies.

What level of care will your relative require? Though you'll certainly have a say in this matter, many ALFs make an initial analysis of a prospective resident's needs and then recommend certain services. The higher the level of care, the greater the expense.

Is the facility comfortable?

Sometimes, a smaller, cozy environment is preferable to being in a larger building. And what are the grounds like? Are there beautiful outdoor spaces that are well maintained throughout the year?

What activities are available to residents? Typically, an ALF will include amenities such as a small gym or workout room, a library, and a chapel. It may offer religious services and activities ranging from live entertainment to bingo and card games. And there may be field trips for those who want to shop or attend concerts or sporting events.

How's the food? Usually, an ALF will serve three meals a day and post daily or weekly menus. Is there sufficient variety, and do the meals seem nutritious and appetizing? Do residents have the option of eating in their rooms?

Does the facility comply with state and local licensing requirements? Does it rank highly in evaluations by state or local agencies? You can also check with the Better Business Bureau to see whether any complaints have been lodged against the operator.

How is security handled? Among an elderly population, personal property may go missing for a variety of reasons, some related to residents' cognitive lapses. But it's crucial to know that your relative will be safe and secure.

What are the hidden costs? Don't forget to factor in charges for haircuts, manicures, TV and phone services, and a range of other add-on expenses that tend not to be listed in facility brochures. Also, be sure to ask about projected fee increases, and the cost of a short- or long-term transfer to a facility's nursing home.

Convincing a relative that it's time to get more help and then choosing an ALF can be an extremely emotional process that puts stress on everyone involved. If you anticipate a move and are able to do most of the homework ahead of time, it may help you and your relative feel more comfortable with the idea and reassure you that you've made the best choice. ●

small luxuries—going to the movies, say, or getting a manicure—you're entitled to treat yourself. But watch out for wasteful spending on upgrades that are way beyond your pay grade. Figure out what's truly important to you to decide where you can cut costs.

5. Try an all-cash diet for a week. When you put away your credit and debit cards, you may find that you're less likely to spend frivolously. This also helps you to pay more attention to how and what

you're spending, and to prioritize your preferences.

Finally, don't just sit on the savings. Take the money you've managed to set aside on your diet and invest it where it can provide benefits in the future. If you've been skimping on your 401(k) or IRAs, those are good places to stash the extra cash. This will allow you to indulge more during retirement years when you're no longer pulling down a paycheck. ●



How A Financial Advisor Can Help

What are your hopes and dreams for the future? They probably begin with being able to provide for yourself and your family. But you also might aspire to a bigger home, an exotic vacation or another luxury, savings for your children's education, and a nest egg for retirement.

While you may be able to achieve all of those things, you can't just snap your fingers and make them happen. You'll need hard work and financial discipline, and you'll need to make a long-term commitment to work toward your goals. Enlisting the services of a financial advisor could help guide you along the way.

Of course, you still would be the one calling the shots, but an advisor can provide valuable assistance in many respects. An advisor can help you:

- Assess your current financial status, including your income, investments, assets, liabilities, insurance coverage, tax situation, and estate plan;
- Set goals that are both ambitious and reasonable;

- Account for changes in your personal circumstances (births, deaths, marriage, or divorce);

- Address weaknesses in your current investment and retirement planning;

- Develop a comprehensive plan to suit your current needs and future desires.

Couldn't you do all of this on your own? If you're sufficiently savvy about financial matters you could, but few people have the time, expertise, and inclination to do all that's required. And even if you're determined to tackle your financial objectives by yourself, you could need a push to get you started. What's more, an objective third party such as a professional financial advisor may add a valuable new perspective to your own outlook. You might benefit from having someone review key decisions about your financial future.

Even if you don't feel you need the help of a financial planner now, something could happen to trigger a call for help. For instance, maybe you've inherited a large sum of money or property and you're not sure how to handle it. Perhaps you, or your spouse, have been laid off from a job and suddenly money is tight and you're forced to make financial trade-

offs. Or you may require assistance on other financial fronts ranging from elder-care planning to paying higher-than-expected college costs for your kids or

resolving a shortfall in your retirement savings.

If you do decide to use a professional financial advisor, you'll still need to find one who is experienced and has experience helping clients in your situation. We would be glad to show you the high level of services that we provide. ●



Roth IRA Mistakes To Avoid

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6% of the overage and you have to pull the extra money out. But you won't have to pay the penalty if you fix the problem before filing your tax return.

Mistake #4: You take money out of a Roth when you don't have to.

For traditional IRAs, you must begin taking required minimum distributions (RMDs) by April 1 of the year following the year you turn age 70½—and then continue taking at least the RMD each year for the rest of your life. But RMDs aren't mandatory with a Roth. Unless you need the money, the funds can continue to grow without taxes within the account. This can be a tax-efficient way to preserve assets for your heirs. When the beneficiaries

inherit the Roth, they will have to take RMDs each year, but they shouldn't have to pay taxes on those withdrawals.

Mistake #5: You don't name any beneficiaries or enough beneficiaries.

This sounds basic enough, but surprisingly it's a real problem among Roth participants. For starters, you should designate at least one primary beneficiary and several contingent beneficiaries who would inherit if the primary beneficiary dies before you do.

Also, when naming beneficiaries, be sure to provide complete information about each person, including name, address, date of birth, and Social Security number. Simply listing "my

daughter" or "my son" won't suffice.

Mistake #6: You pay the Roth conversion tax out of IRA funds.

The beauty of both traditional and Roth IRAs is that the funds in your account compound without current taxes.

However, using IRA assets to pay the conversion tax could be detrimental in the long run because this will reduce the amount that can accumulate inside your account. If at all possible, dig into your wallet for the conversion tax and keep the entire nest egg working for you.

These are just some of the common mistakes we've seen Roth participants make. Ask for our guidance if you have any concerns. ●

