LET'S TALK MONEY®

March/April 2013

Americans born between 1957 and 1964 held an average of 11 jobs between the ages of 18 and 44.* As people in this group approach retirement, they could potentially have upwards of 11 different employer-sponsored retirement plan accounts to keep track of and manage.

Even if you have only a couple of accounts in former employers' retirement plans, now may be the time for you to consolidate them into one individual retirement arrangement (IRA) — for several good reasons.

Advantages of consolidating

Rolling over assets from multiple retirement plan accounts to an IRA helps maintain tax benefits while consolidating the accounts into one, easy-to-monitor account.

Also, having your retirement assets in one IRA can simplify the process of periodically rebalancing your investment mix to reflect the asset allocation** you have worked out with your financial professional. You can view all your retirement assets in one account, rather than as several accounts that have to be considered together but rebalanced separately.

Direct rollover is best

The most tax-effective way to move your employer retirement plan assets to an IRA is to have the retirement plan transfer them directly to the custodian of the IRA. That way, you won't have to worry about tax withholding and can keep all your assets tax deferred. (You can have money that's in a designated Roth 401(k), Roth 403(b) or Roth 457(b) account transferred to a Roth IRA.)

You can also transfer assets from a pretax plan account to a Roth IRA, but you'll have to pay current income tax on the taxable portion of the transfer. See "Would a Roth Conversion Work for You?" on the back page for more details.

Before consolidating your retirement plan accounts, touch base with your financial professional and tax advisor to compare the costs of the current plan, the rollover (if any) and the new IRA to help ensure you receive the maximum benefits of such a move.

Too Many Retirement Accounts

* U.S. Bureau of Labor Statistics News Release, September 10, 2010

** *Asset allocation does not guarantee a profit or protect against losses.*

FINRA Reference #FR2012-1030-0152/E 02/04/13

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I am committed to helping my clients achieve their financial goals for themselves, their families and their businesses by providing them with strategies for asset accumulation, preservation and transfer.

Meaglia Financial Consulting is a full-service comprehensive financial consulting and investment advisory business. For over 30 years, Tom has been helping clients with financial coaching, investing for retirement, and estate planning.

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By the numbers:

GRANDPARENT SPENDING

95%
buy holiday and birthday gifts

53%
help with educational expenses

37%
help with everyday living expenses

23%
help with medical and dental expenses

Source: *Insights and Spending Habits of Modern Grandparents*, AARP, 2012

21st Century Grandparents

Forget about white hair and rocking chairs. The idea that all grandparents are "elderly" is as old-fashioned as rotary phones. However, the idea that grandparents spoil their grandchildren has stood the test of time.

Some things never change

During in-depth interviews,* most grandparents age 50+ surveyed by AARP said being a grandparent was a "joy." Many mentioned that grandparenting is like parenting, only better since they don't have to take primary responsibility for providing care — or discipline. Citing the benefit of age and maturity, survey participants said they're better able to appreciate their grandchildren.

That's not to say the grandparents surveyed are only in it for the good times. Many said they feel a responsibility to help shape their grandchildren's lives by counseling them, passing on values, providing moral guidance and establishing intergenerational family ties.

Spending and spoiling

Has the recent recession put a damper on how much money today's grandparents are spending on their grandchildren? More than half of those surveyed said the recession didn't change anything. However, a similar number said they've made financial cuts in *other areas* so they can afford to keep spending on their grandkids.

Gifts that keep on giving

Instead of showering grandkids with more and more presents, some grandparents are giving gifts that make a difference, such as money for college or contributions to a savings (or investment) account. For older grandchildren who have earned income, funding a Roth individual retirement arrangement (IRA) is another gift that can provide long-term benefits. A Roth IRA's potential for tax-deferred earnings and eventual tax-free distributions** can be very attractive.

A life insurance policy is another gift with lifelong benefits. If you have grandchildren, talk to your financial professional about how you can spoil them — in a financially sound way.

* *Insights and Spending Habits of Modern Grandparents*, AARP, 2012

** Certain tax law requirements must be met.

Timely Tips
for Tax Season

'Tis the season . . . the one nobody likes: tax season. If you usually claim the standard deduction, itemizing deductions *might* be a better deal. If you already itemize deductions, here are some expenses you may be forgetting.

Health: You can include health and certain long-term care insurance premiums with your unreimbursed medical and dental expenses. The premiums may help put you over the "floor" (7.5% of your adjusted gross income (AGI)) that must be met before *any* of your medical expenses are deductible. Note: The 7.5%-of-AGI floor is scheduled to increase to 10% beginning in 2013 (some exceptions apply).

Home: If you recently refinanced your home, any points you paid generally can be deducted ratably over the life of the loan. The points may be fully deductible this year under certain circumstances.

Mortgage: Interest on your home mortgage is deductible, including interest you pay on up to $1 million borrowed to buy, construct or substantially improve a principal *or* secondary residence. The interest on a second mortgage or home equity loan or line of credit also may be tax deductible. (Limits apply.)

Charity: Qualified donations of either cash or property are tax deductible, within limits, as long as you have appropriate substantiation from the charity.

Time To Top Off Your IRA?

If you haven't filed your tax return yet, there may be a way to lower your tax bill. If you're eligible, and if there's time, you may be able to reduce your taxable income — and the amount of tax you owe — by making a tax-deductible contribution to an individual retirement arrangement (IRA).

Note that IRA contributions for the 2012 tax year must be made by your tax-filing deadline — not including extensions.

Tax Breaks
for Military Families

There are some special tax breaks for members of the military and their families. If you're in this group, here are some tips:

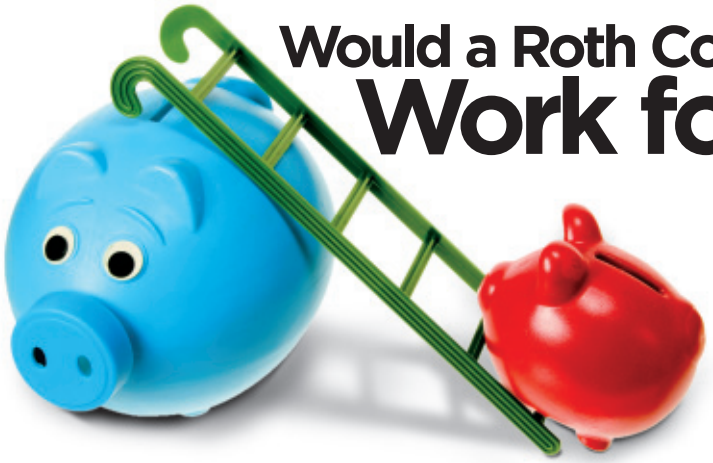
Moving expenses. Service members who are on active duty and move because of a permanent change of station can deduct the reasonable unreimbursed expenses of moving.

Combat pay. Enlisted persons and warrant officers who serve in a combat zone for any part of a month can exclude all military pay for that month from their income. Officers also can exclude a limited amount of pay.

Joint returns. Spouses who are not available to sign a joint income-tax return due to military duty may use a power of attorney or IRS Form 2848 to file the return.

During the transition to civilian life, you may be able to deduct certain job search and/or moving expenses. You should also remember to meet with your financial professional to make sure you have adequate insurance coverage.

Would a Roth Conversion Work for You?



The tax law allows you to convert a traditional individual retirement arrangement (IRA) to a Roth IRA. A Roth IRA can provide you with a potentially tax-free source of retirement income. That's not the case with your traditional IRA, since withdrawals must be included in your taxable income (except to the extent of any contributions that weren't tax deductible).

Although converting involves an up-front tax cost, it still can be a good tax strategy for some people. Here are a few details to help you decide whether a Roth IRA conversion is a strategy you should consider.

Roth IRA basics

Contributions to a Roth IRA are made with after-tax money. Generally, once you've held a Roth IRA for five tax years and you're over the age of 59½ (and in some other circumstances), all Roth IRA withdrawals — including investment earnings — are tax free. And unlike a traditional IRA that has annual minimum distribution requirements once you reach 70½, you don't have to withdraw money from your Roth IRA unless you want to.

If you don't need the money in your Roth IRA, you can keep it invested in your account on an income-tax-free basis for as long as you like. Eventually, your heirs could benefit.

Taxes on the conversion

You will, though, owe income taxes when you convert a traditional IRA to a Roth IRA. The taxable conversion amount is included in your taxable income in the year of conversion.

So, should you convert?

A Roth conversion might work for you if:

- You're younger.
- Your traditional IRA is small or you made nondeductible contributions to your traditional IRA.
- You have enough money outside your IRA to pay the tax on the conversion.
- You expect your tax bracket to be higher in retirement.

Your financial and tax professionals can help you determine if converting a traditional IRA to a Roth IRA is right for your situation.

We Value Your Input...

Your feedback is very important to us.
If you have any questions about any of the subjects covered here, or suggestions for future issues, please don't hesitate to call. You'll find our number on the front of this newsletter. It's always a pleasure to hear from you.

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