LET'S TALK MONEY®

May/June 2013

Recharging Your Retirement Account

The "great recession" market downturn isn't the only factor that's affected retirement account balances. Many laid-off workers tapped into those accounts to make ends meet. Others defaulted on 401(k) plan loans, causing taxes and penalties to further deplete their balances. What can you do if you've fallen behind on your retirement investments?

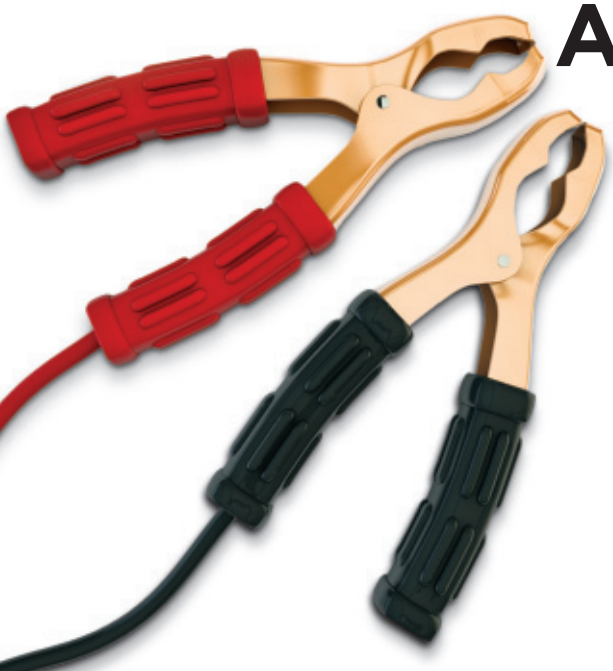
Boost contributions

Even a small increase in your retirement account contributions could make a significant difference at retirement. If you participate in an employer-sponsored retirement plan and your employer matches some of your contributions, try to contribute at least enough to receive the full match. If you have an individual retirement account (IRA), you can contribute up to $5,500 for 2013.

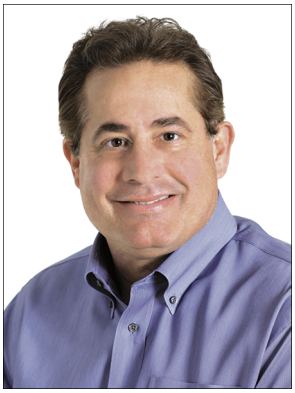
Take advantage of all opportunities

Don't overlook these other ways to invest more for retirement:

- **IRAs.** You can contribute to an IRA, even if you participate in a retirement plan at work, although income-based limitations may restrict your ability to deduct your contribution.
- **Spousal IRAs.** If you have earned income, you can contribute up to $5,500 (or your combined earned income, if less) to an IRA for a spouse who doesn't.
- **Catch-up contributions.** If you're age 50 or older, you can contribute an additional $1,000 to your IRA. Catch-up contributions are available for spousal IRAs as well. Many employer-sponsored retirement plans also let older participants contribute more.



Cutting back on spending and reducing your income taxes can allow you to invest more. Now may be a good time to meet with your tax professional to get a jump on your 2013 tax-saving strategies and with your financial professional to explore ways to reduce your monthly expenses. Your financial professional can also help you coordinate the investment of all of your retirement accounts.



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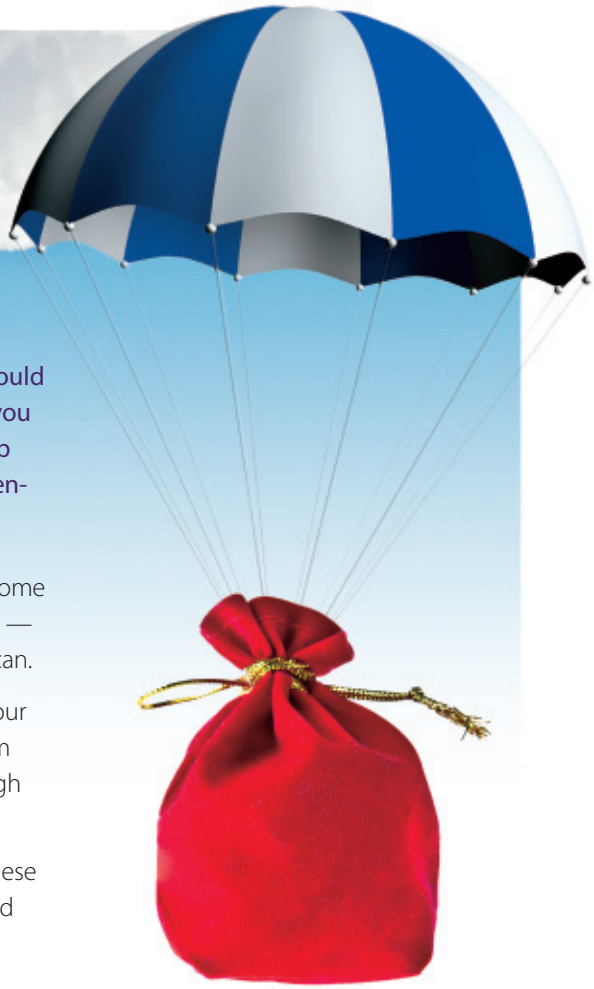
I am committed to helping my clients achieve their financial goals for themselves, their families and their businesses by providing them with strategies for asset accumulation, preservation and transfer.

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.

What To Do with a Windfall



If you were to come into a sizable chunk of money, such as an inheritance, what would you do with it? If your answer is something like "quit my job and buy a sports car," you may want to reconsider. A spending free-for-all might be fun, but you could end up back where you started. A carefully managed windfall, on the other hand, could benefit your finances for life.

Tuck it away. Unless you already have a sound financial plan, the best thing to do with a windfall is tuck it away in a low-risk account until you *do* have a plan.

Pay off "bad" debt. Balances on high interest credit cards are considered to be "bad" debt: You're paying a lot of interest and not getting anything in return. If you have credit card debt, use some of your windfall to pay your account balances in full.

Pump up your rainy-day fund. Put some of your windfall aside for emergencies — six months' worth of expenses, if you can.

Plan for the future. Direct some of your newfound cash toward your long-term goals, such as putting your kids through college and a comfortable retirement.

Splurge! Once you've taken care of these financial priorities, go ahead and spend some of your windfall.

FOR COLLEGE GRADS

Congratulations! College has prepared you for the real world in many ways. But there's one subject that probably wasn't covered — personal finance. So, to prevent you from digging yourself into a financial hole, here are five financial rules to live by.

Set up a spending plan

Add up your nondiscretionary expenses (rent or mortgage, utilities, etc.). Then, figure out how much you can spend on discretionary items. Keep track of spending to stay within your budget.

Spend less than you make

It sounds simple, and it is. Let this rule guide you throughout life.

Pay your bills on time

Set up a system for paying your bills before their due date. Late payments result in fees and penalties, which aren't in your spending plan (Rule #1) — and may adversely affect your credit rating.

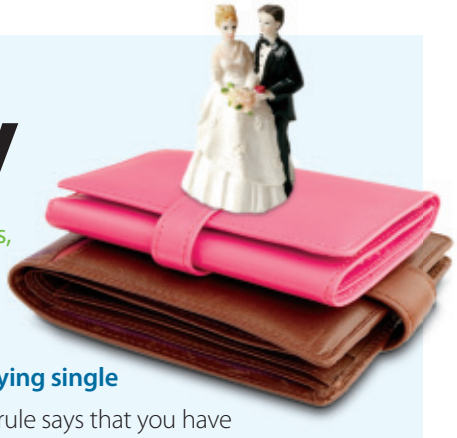
Keep credit under control

Try to pay your credit card bills in full, on time, every month. If you don't, fees and interest charges may be added, potentially increasing the principal amount you owe. Allowing unpaid balances to grow is not part of the plan (Rule #1 and Rule #2).

Start saving for retirement

Yes, seriously. Investing even a small amount early in your career can have a big influence on how much you have for retirement.

Marrying Your Money



Money may not be able to buy you love, but love doesn't always conquer money issues, either. No matter how compatible the two of you are in other ways, if you're not on the same page when it comes to your finances, you could be heading for trouble.

Together forever

Some couples set up joint accounts and merge their money right away. From an administrative standpoint, this may be the simplest approach since bills can be paid with one check or one online transfer instead of two (one payment from each spouse). However, salary disparity, one-sided debt, different banking preferences (online versus offline) and the loss of financial independence could cause problems.

Yours, mine and ours

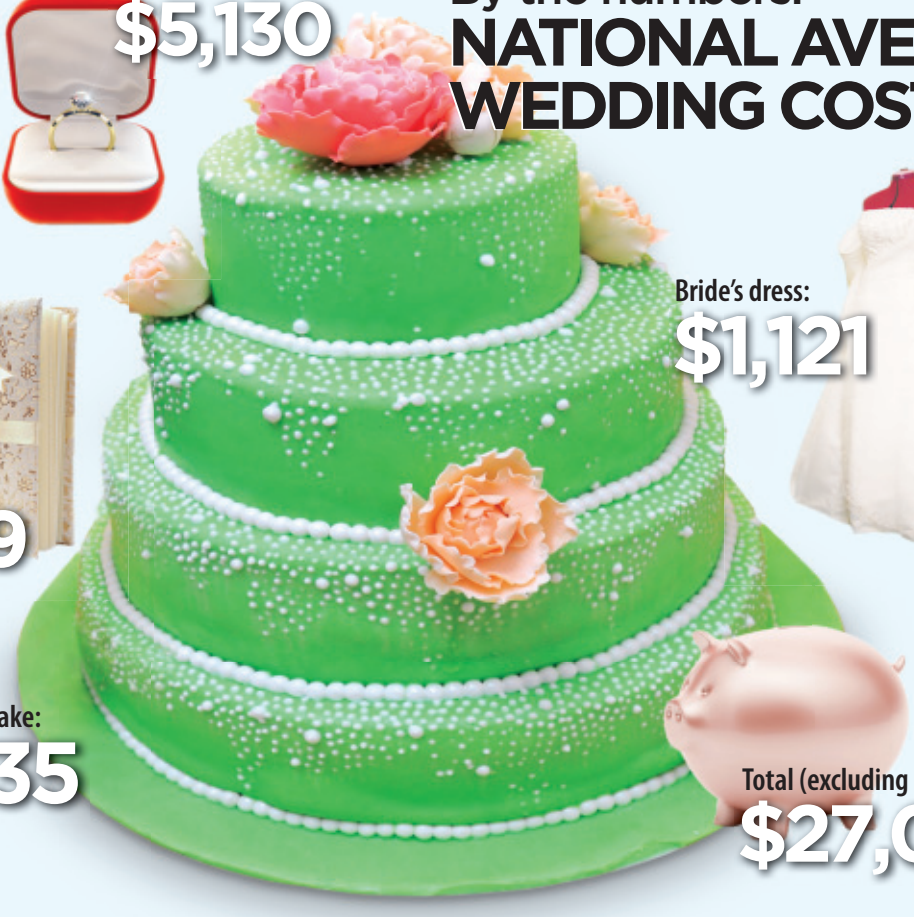
Another way to manage your money is to set up joint accounts for shared bills and financial goals and still maintain your separate accounts. This can work well when spouses are used to managing their own money, prefer to retain some level of financial independence and/or one or the other has substantially more debt. The drawback is that it's more difficult to see the overall financial picture.

Staying single

No rule says that you have to merge any of your money. However, maintaining completely separate cash silos can make paying bills more difficult. It can also be stressful when variable expenses arise, such as a vacation or a costly home repair. A lack of transparency around money matters can be problematic for couples. You'll need to work out what's best for you.

By the numbers: NATIONAL AVERAGE WEDDING COSTS

Engagement ring: **$5,130**



Bride's dress: **$1,121**

Photographer: **$2,299**

Wedding cake: **$535**

Total (excluding honeymoon): **$27,021**

Source: 2011 Real Weddings Survey, conducted by XO Group, Inc. (creator of wedding websites *TheKnot.com* and *WeddingChannel.com)*

Take the Money and Run . . . or Not

Have you thought about how you're going to receive the money you've accumulated in your employer's retirement plan if you change employers or retire? Your choice could make a big difference in how much current income tax you'll pay, your retirement income and how long your retirement resources will last.

Here's a look at some ways you might be able to withdraw your money.

The lump-sum option

If your plan allows, you may be tempted to take your vested account balance in a lump sum as a one-time cash payment when you retire. You'll owe federal (and possibly state) income tax (plus an additional penalty tax for early withdrawal if it applies) on the taxable portion of the distribution in the year you receive it. This tax bite could leave you with a lot less money to generate retirement income.

IRA rollover option

Another option that may make more sense is to have the plan trustee directly transfer (roll over) your distribution to a traditional individual retirement account (IRA). With a direct transfer, no income tax will be due right away, and all of the money transferred to the IRA can stay invested tax deferred until you withdraw it.

You can have the distribution paid to you and then roll it over yourself. However, the plan will be required to withhold 20% for federal income-tax purposes. Be aware that you have 60 days to complete your rollover or you'll owe taxes (and possibly a penalty) on the entire amount you didn't roll over.

Annuity option

You may have the option of receiving your benefits in the form of an annuity. An annuity* generally will provide you with monthly payments beginning at retirement and continuing for your lifetime (and perhaps a spouse's or beneficiary's lifetime).

Whether you're close to retirement or not, work with your financial professional and tax advisor to cut taxes and stay focused on your end goal — a comfortable retirement income.

** An annuity may impose charges, including, but not limited to, surrender charges, mortality and expense risk charges, administrative fees, underlying fund expenses and feature charges that can reduce the value of your account and the return on your investment. You will have to pay federal income tax on any earnings you withdraw from the annuity during retirement or before. Payments and guarantees are subject to the claims-paying ability of the issuing insurance company and the underlying investment options are subject to market risk and may lose value.*

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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