

SECOND OPINION



ROTH IRA A GOOD IDEA EVEN LATE IN THE GAME

Q: My wife and I are getting ready to retire in January 2010. We are maxing out our 401(k)s for retirement (current value about \$225,000). My wife will have a small pension, which may be enough to buy food. Is it too late to start investing in Roth IRAs? We could max out this year through retirement. Also, I'm thinking about working just enough to max out Roths until age 70, which will be eight years from now. We own our home and have no debt. - J.K., Dallas

A: Starting and funding a Roth IRA is a great idea. Having an investment account that doesn't require minimum withdrawals after age 70 1/2 or create a taxable event when you make a withdrawal will add significant flexibility to your retirement. It will give you more control over your tax bill. It may work to reduce the taxes on your Social Security benefits.

Q: With the birth of our second child this year and a new job for my husband (one that has benefits), my husband and I decided I would become a homemaker. I have two 401(k) plans and one 403(b) plan from my previous employers. Combined, they would total \$25,000.

Is combining these into an IRA a good idea? If yes, what about converting to a Roth IRA, because this year will be the lowest my earned income will ever be (I do plan on returning to work in four years). One wrinkle: I cannot afford to pay taxes outright on the \$25,000. What do you suggest? - L.A., Freer, Texas

A: Consolidating your two 401(k) plans into a single IRA rollover is a good idea. It will give you an opportunity to select a low-cost fund company. You'll also have fewer accounts to watch.

I hope you can do it with your 403(b) plan as well. But that move may be more difficult unless you are one of the fortunate 403(b) account holders who have access to straight mutual fund investments rather than variable annuity investments.

One of the major problems most people face is a tendency for the number of their savings and retirement accounts to grow. The statements stuff their mailboxes, they don't get to see "the big picture," and they end up feeling powerless because making changes is time consuming and intimidating. Your idea is a good start to taking command of your future.

Most young people would benefit from a Roth IRA conversion because the threshold for Social Security benefits taxation will be very low by the time they retire. The ideal way to do it is to pay the taxes from other assets (or income) and move the entire account into a Roth. But paying the taxes from the IRA, making a smaller account, can be OK, too.

With a standard deduction of \$10,700 this year and four personal exemptions, you and your husband can have \$88,000 of adjusted gross income and still be in the 15% tax bracket. That means your husband can have \$63,000 of income, *after his 401(k)*

deductions, and you wouldn't pay more than 15% on the conversion. If you can't do it this year, it may work better next year.

Q: My husband is concerned about the effect of the falling dollar on our retirement funds. We are in our 70s. Can you recommend some ways to combat this in our portfolio? - S.T., by e-mail

A: There are several ways to protect your retirement income and assets from the decline of the dollar. The first is to relax a bit and remember that many American companies derive a major portion of their earnings abroad. As a consequence, their earnings tend to be boosted by a declining dollar. This reality should also restrain you from going to extremes with foreign investing.

The practical steps you can take are limited: You can invest some of your assets in international equities and international bonds. In addition to this I have also suggested investing in REITs and energy companies. All four investments will give you some protection from a declining dollar. You can learn more about this by visiting my Web site and reading about the Couch Potato Portfolio Building Blocks.

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(Questions about personal finance and investments may be sent by e-mail to scott@scottburns.com or by fax to 505-424-0938. Check the Web site: www.scottburns.com. Questions of general

interest will be answered in future columns.)

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