THE Financial Standard

SPRING 2013

I believe successful investors must remain patient, disciplined, and diversified through all economic cycles, especially during downturns. My firm helps manage the investments and behavioral attributes families need to pursue their goals. I trust this newsletter will help provide perspective and information as your family plans for the future.

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Time to Reconsider the Roth 401(k)

Tucked inside the fiscal cliff tax legislation passed in early January is a provision that may make Roth-style retirement accounts attractive to a wider group of retirement savers.

Starting in 2013, virtually any participant in a 401(k), 403(b) or 457(b) plan will be allowed to convert a traditional account to a Roth-style account—provided the participant's employer offers a Roth option and allows "in plan" conversions. Prior rules allowed participants to convert a traditional plan to a Roth plan only if they were eligible to take distributions from their account, which generally required a "qualifying event," such as reaching the age of 59½, experiencing extreme financial hardship, disability or death.

While the provision was included by lawmakers as a way to raise current revenue (the money is taxed at the time of conversion, but can then be withdrawn tax-free at retirement), it has the potential to benefit a wide range of investors.

Traditional vs. Roth Plans: A Refresher Course

Here is a quick summary of the key features and differences between the two types of accounts.

- **Contributions:** Contributions to traditional 401(k) plans are made with pre-tax dollars, which reduce the participant's current taxable income, and potentially, his or her current income tax bill. Contributions to Roth 401(k) plans are made with after-tax dollars, which do not affect the participant's current taxable income.
- **Distributions:** Traditional 401(k)s offer tax-deferred investment growth, but future distributions (withdrawals) are taxed at the participant's income tax rate when the money is withdrawn. Roth 401(k) plans offer tax-free investment growth and tax-free future withdrawals.
- **Rollovers:** A traditional 401(k) can be rolled directly into either a traditional IRA or Roth IRA, while a Roth 401(k) can only be rolled into a Roth IRA. In both instances, rollovers are allowed when you retire or leave your job.

Is the Roth Right for You?

Before weighing the pros and cons of converting to a Roth 401(k), determine whether your employer offers a Roth option. According to a 2012 survey conducted by benefits consulting firm Towers Watson, 46% of companies offered a Roth 401(k).[1]

Then, consider the following:

- **Up-front tax bill:** Will you be able to pay the income taxes owed on the conversion upfront? Where will that money come from?

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Is the U.S. Housing Market (Finally) Making a Recovery?

A mounting number of positive reports on the U.S. housing sector have inspired optimism that a sustained recovery is truly underway. Here are some statistical trends and projections from key industry resources.

Home Sales

According to the National Association of Realtors®, existing homes sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops are at the highest level since November 2009. Sales rose 5.9% in November 2012, and are 14.5% higher than in November 2011.[1]

The data differed somewhat by region. In the Northeast, sales were up 6.9% in November 2012, an increase of 14.8% over the previous year; in the Midwest, sales rose 7.2% and were 21.4% higher than a year earlier; in the South, sales were up 7.9% with a gain of 17.2% over the previous year; and in the West, sales rose 0.8%, representing a gain of 4.4% over 2011.[1]

Housing Starts

In addition to home sales, new home construction has also been on the rise. New homebuilding permits increased 3.6% to 899,000 units in November 2012—their highest level since July 2008 and exceeding the 875,000 units forecast by economists, according to U.S. Commerce Department data. In the 12 months through November 2012, housing starts were up 21.6%, while permits gained 26.8%.[2]

Longer term, the National Association of Realtors sees housing starts reaching 1.1 million in 2013 and then rising again to 1.4 million in 2014. That translates into a gain of 50% in 2013 followed by another 25% gain in 2014.[3]

Home Prices

Home prices continued to rise in the fourth quarter of 2012, according to the S&P/Case Shiller[4] Home Price Indices, the leading measure of home prices in the United States. Prices in the 10- and 20-City Composite Indexes rose 4.5% and 5.5%, respectively, in the 12 months ending November 2012, outpacing analysts' predictions (see table to right).[5]

The national median existing-home price for all housing types was $180,600 in November, up 10.1% from the previous year. This is the ninth consecutive monthly year-over-year price gain, which last occurred from September 2005 to May 2006.[1]

Mortgage Rates

Interest rates on fixed rate mortgages finished out 2012 near record lows, helping to keep the prospect of buying or refinancing a home very attractive to those looking to take the leap into homeownership.

According to Freddie Mac, rates as of December 27, 2012, were as follows:[6]

- 30-year fixed rate—3.35% compared with 3.95% a year earlier.
- 15-year fixed rate—2.65% compared with 3.24% a year earlier.

Key Takeaways

While it is clear that the housing recovery is gaining strength, economists predict that it will be some time before the housing sector will contribute in a meaningful way to the overall economic recovery. However, with interest rates still near historic lows, now may be the time for homeowners to refinance to improve cash flow, pay down debt, put away more money for college and/or retirement or redirect home equity into improvements that enhance the value of their home.

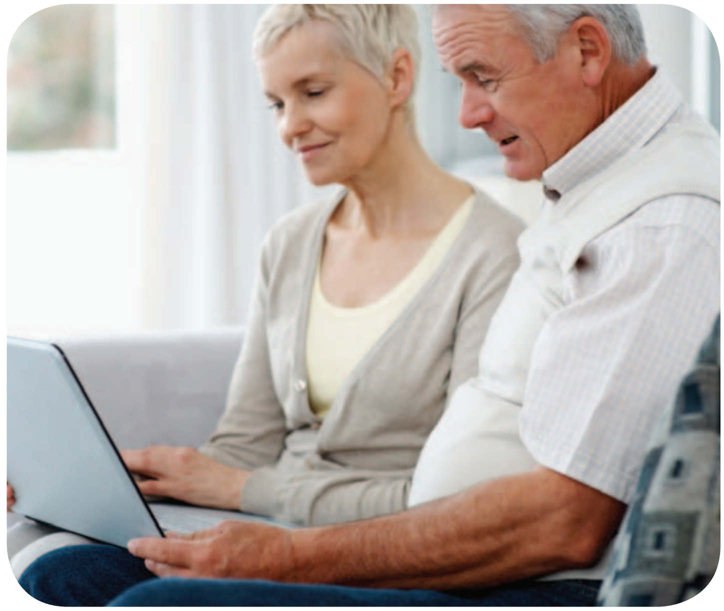
Recovery in Home Prices, City-by-City

Metropolitan Area	Nov. 2012 Level*	1-Year Change
Atlanta	95.68	7.6%
Boston	153.74	2.3%
Charlotte	115.41	5.1%
Chicago	113.35	0.8%
Cleveland	100.68	1.8%
Dallas	120.55	5.7%
Denver	134.50	7.8%
Detroit	80.33	11.9%
Las Vegas	100.56	10.0%
Los Angeles	176.58	7.7%
Miami	151.13	9.9%
Minneapolis	126.41	11.1%
New York	162.86	-1.2%
Phoenix	124.16	22.8%
Portland	142.13	6.7%
San Diego	163.58	8.0%
San Francisco	146.23	12.7%
Seattle	142.53	7.4%
Tampa	133.77	6.8%
Washington	189.11	4.4%
Composite-10	**158.28**	**4.5%**
Composite-20	**145.82**	**5.5%**

Source: S&P Dow Jones Indices and Fiserv, data through November 2012.
*The S&P/Case-Shiller Home Price Indices were set at 100 as of January 1, 2000. They are adjusted upward or downward monthly based on the change in home prices for each metropolitan area.

[1]Source: National Association of Realtors, "National Existing Home Sales and Prices Maintain Uptrend," news release, December 20, 2012.
[2]Source: *The New York Times*, "Homebuilding Permits Rise, Exceeding Forecasts," December 19, 2012.
[3]Source: National Association of Realtors, "Housing Starts Soar," November 20, 2012.
[4]The S&P/Case-Shiller® Home Price Indices are the leading measure of U.S. home prices. Case-Shiller® and Case-Shiller Indexes® are registered trademarks of Fiserv, Inc.
[5]Source: S&P Dow Jones Indices, "Home Prices Extend Gains According to the S&P/Case-Shiller Home Price Indices," news release, January 29, 2013.
[6]Source: Freddie Mac, "30-Year Fixed-Rate Mortgage Finishes Year Near Historic Low," news release, December 27, 2012.

529 Plans Offer Tax and Wealth Transfer Benefits



One of the biggest financial challenges facing American families today is finding ways to meet ever-increasing college costs. A unique college-funding vehicle that has been gaining popularity in recent years is the 529 college savings plan. Total assets in 529 plans reached an estimated $163.7 billion as of September 2012, reflecting a 21.6% increase from a year earlier.[1]

Tax-Friendly Savings ...

529 plans are tax-advantaged investment accounts designed to encourage saving for future higher education expenses of a designated beneficiary (typically one's child or grandchild). The plans are named after Section 529 of the Internal Revenue Code and are administered by state agencies and organizations.

All withdrawals from 529 plans for qualified education expenses are free from federal income tax. In addition, many states mirror the federal tax advantages for 529 plans by offering tax-deferred growth and tax-free withdrawals on the state level for qualified higher education expenses.[2]

... and Powerful Wealth Transfer Features

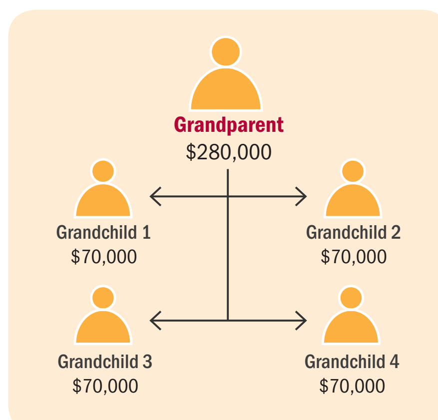
In addition to the generous tax treatment, 529 plans' ability to act as a powerful wealth transfer mechanism has captured the attention of a growing number of high-net-worth parents, grandparents and others looking to transfer large sums out of their estates while helping to offset soaring college costs.

Because contributions to 529 plans are considered gifts, they qualify for the $14,000 per year ($28,000 per couple) gift tax exclusion for 2013, and any money gifted to a 529 plan is no longer considered part of the donor's taxable estate. But the donor, who is also the 529 plan account holder, still retains control over the assets.

What makes 529 plans unique is the accelerated gifting feature that allows donors to make up to five years' worth of gifts—that is $70,000 per individual donor or $140,000 per couple—to a plan beneficiary in one year, and elect to treat the contribution as if it were made over five calendar years for gift tax purposes. If the donor refrains from making any additional gifts to the same beneficiary for the five-year period, he or she will owe no gift tax on the contribution.

In this way, accelerated gifting allows donors to remove assets (and potential asset growth) from their estates faster, while also making significant contributions toward the college costs of one or more beneficiaries.

The following hypothetical illustration shows how one grandparent immediately reduced her taxable estate by $280,000 through a five-year, $70,000 gift to each of her four grandchildren using the accelerated gifting feature of a 529 plan.



One Important Caveat

One word of caution if you and/or a spouse are considering using the accelerated gifting method: According to IRS rules, in the event the donor does not survive the five-year period, the transferred amount remaining after the year of death would revert to the donor's taxable estate.

Please contact your tax and/or financial advisor to learn more about the tax and estate planning benefits of 529 college savings plans.

[1]Source: Financial Research Corporation, "FRC's 3Q12 529 Data Highlights."
[2]Tax treatment at the state level may vary. Prior to investing in a 529 plan, individuals should consider whether their or their designated beneficiary's home state offers any state tax benefits that are available only through that state's qualified tuition program.

Small-Business Owners

This Year, Make Retirement a Priority

Retirement planning is one of the critical pillars of an overall financial plan for all individuals. This is especially true for small-business owners who are "on their own" when it comes to planning for their future and for that of the business.

Yet recent research by The American College found a shocking lack of retirement preparedness among the small-business community. Specifically, 40% of small-business owners have no retirement or pension plan in place.[1] The vast majority of this group—whose average age is 50—expressed concern about retirement, yet a third of women and a quarter of men have not calculated how much they would need to live on in retirement.[2]

Among those who have done a retirement needs calculation, only half have done so with the guidance of a financial professional, and roughly three out of four of all business owners surveyed have no formal written retirement plan in place.[2]

Retirement Plan Options

Generally, there are three broad categories of retirement plans available to small businesses—SEP IRAs, SIMPLE IRAs and qualified plans such as defined contribution 401(k) plans. Below are contribution limits for the 2013 plan year.

Maximum Contribution*	2013	2012
SEP IRA Employer Only**	Up to 25% of compensation or $51,000	Up to 25% of compensation or $50,000
SIMPLE IRA Employee/Employer***	Up to $12,000 in salary deferrals ($14,500 if over age 50) – Employee	Up to $11,500 in salary deferrals ($14,000 if over age 50) – Employee
401(k) Employee/Employer	**Profit sharing or match:** Up to 25% of compensation or $51,000 – Employer **Salary deferral:** $17,500 ($23,000 if over age 50) – Employee	**Profit sharing or match:** Up to 25% of compensation or $50,000 – Employer **Salary deferral:** $17,000 ($22,500 if over age 50) – Employee

*Withdrawals will be taxed at then-current rates. Early withdrawals prior to age 59½ may be subject to an additional penalty tax.
**Funded solely by employer contributions.
*** Employer either matches employee contributions up to 3% of compensation or contributes 2% of each employee's compensation up to $5,000.

Making the Right Choice

The type of plan you choose should reflect your company's size, financial situation and ability to comply with regulatory oversight and administrative responsibilities. Be sure to speak with a tax or legal advisor before making any decisions. This information should not be used as a substitute for personalized tax and/or legal advice.

[1]Source: BenefitsPro.com, "Forty Percent of Small Business Owners Don't Save for Retirement," September 7, 2012.
[2]Source: The American College, "Small Business Owners Are Unprepared for Retirement," press release, February 28, 2012.

Time to Reconsider the Roth 401(k)

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- **Current tax break:** Think about whether you need the current tax break available through pre-tax contributions to a traditional 401(k).
- **Higher tax bracket in retirement:** Are you likely to be in a higher tax bracket during retirement? Even if your marginal tax rate remains the same as it is now, it's possible that you could face a higher tax bill if you no longer were able to claim deductions for dependents, mortgage interest and other items you may be utilizing at earlier stages of your life. In this case, a Roth 401(k) may be a good choice.
- **Roth IRA eligibility:** A Roth 401(k) also may be to your advantage if your income exceeds the eligibility threshold for contributing to a Roth IRA. In 2013, to be eligible for a full contribution, your adjusted gross income must be $112,000 or less if you are single and $178,000 or less if you are married and filing a joint return.
- **Estate planning:** If you don't expect to need the assets for living expenses in retirement and want to shelter taxes for your heirs, the Roth 401(k) offers the opportunity to roll over funds directly into a Roth IRA, which does not require minimum distributions and may be used as an effective estate planning tool.
- Finally, you need to think about how long you have to save for retirement. Young professionals who are just beginning to save may benefit the most as they would face little tax liability for the conversion and have decades ahead of them for retirement assets to grow.

While this tax rule creates potential new opportunities for retirement savers, it—like most tax rules—has layers of complexity that are best sifted through with the guidance of your financial advisor and/or a tax professional. Be sure to contact a trusted advisor before making any hasty decisions.

[1]Source: CNNMoney.com, "More savers convert to Roth 401(k)s under fiscal cliff deal," January 4, 2013.