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Five Seasons Financial Planning

Guiding You to a Brighter Financial Future

Seasonal Musings

April 2007

Hi Paul,

Welcome to another issue of "Seasonal Musings", the online newsletter from Five Seasons Financial Planning (FSFP). In this issue, we'll be discussing when Roth 401(k) plan contributions are beneficial, and a recent court ruling that benefits financial consumers. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

Roths Revisited

Are Roth 401(k)'s Right For You?

In the last issue of "Seasonal Musings", we covered the ABC's of the new Roth 401(k) plans that many employers are now introducing. But are these plans right for you, or should you stick to contributing to the traditional 401(k)? Let's talk about some of the circumstances that would make Roth 401(k) contributions more attractive.

If most of your retirement nest-egg is in accounts funded with pre-tax contributions, Roth 401(k)'s offer you the opportunity for "tax diversification". Traditonal 401(k)'s, 403(b)'s and tax-deductible IRAs are especially beneficial if your marginal tax rate is higher now than it will be when you withdraw from these accounts. Of course, it's often very difficult to tell in advance if this will be the case. So Roth accounts offer you the chance to hedge your exposure to future tax rates since they are even more valuable if tax rates rise.

Along these same lines, if you believe that the government must eventually raise income tax rates to fund our deficits and to shore up Medicare and Social Security, then Roth 401(k)'s might be the ticket for you. Assuming that Roth withdrawals would remain tax-free in this scenario, these accounts would be powerful and dependable sources of retirement funds.

With respect to advance planning for retirement expenses, Roth 401(k)'s take one of the many variables out of the equation. Retirement projections will be more accurate and meaningful since we don't have to make assumptions about future tax rates in retirement when account withdrawals are made.

For those of you who are more concerned about passing on wealth to future generations than funding retirement, Roth 401(k)'s offer a potential means to accomplish this objective that might otherwise be unavailable. Roth accounts are not subject to required minimum distributions (RMDs), so they can remain intact for beneficiaries, who will receive distributions tax-free. Unfortunately for now, there are income limits preventing many of you from both contributing to Roth IRAs or converting accounts to them. In this regard, contributing to Roth 401(k)'s and then eventually rolling them over into Roth IRAs might be the only chance for some to avoid RMDs and pass on retirement account wealth intact.

Finally, for the avid savers among you, Roth 401(k)'s effectively allow you to contribute more on an "after-tax equivalent" basis than the traditional 401(k). In essence when you contribute to the latter, the government still has a future claim on that asset amounting to its share of the eventual withdrawal. So while the IRS contribution limits are the same for the 2 types of 401(k)'s, you are effectively socking away more for the future in a Roth.

If you'd like to discuss other ways to make the most of your retirement options, please drop us a line using the contact info below.

A Step in the Right Direction

Supreme Court Strikes a Blow for Financial Consumers

A few weeks ago, the Supreme Court did many financial consumers a favor by striking down the so- called "Merrill Lynch rule". Because of the ruling, brokers will no longer be able to offer fee-based accounts without adhering to the fiduciary standard that we Fee-Only NAPFA members hold dear.

Until now, many consumers have struggled to differentiate between the fee-based accounts offered by brokers, and the asset-based or Fee-Only accounts offered by investment advisers like Five Seasons. The only common feature of these 2 offerings is that the fees are a percentage of assets under management. Investment advisers must treat their clients with a much higher standard of care, the fiduciary standard, than brokers, who must merely recommend "suitable" investment products.

This might seem like semantics, but consider the following 2 examples which we see over and over in the accounts of ex- clients of brokers: (1) Are mutual funds with loads and sales fees "suitable" for investment? In most cases, yes. Are they in the client's best interests? In most cases, no. (2) Are annuities with 7-year or even 10- year surrender charges "suitable" vehicles for retirement saving? In most cases, yes. Are they in the client's best interests? In most cases, no.

The Supreme Court's ruling should help to clarify the different standards of care between brokers and investment advisers. We've discussed the "Merrill Lynch rule" and the importance of the fiduciary standard to clients in past issues of "Seasonal Musings". Click **here** to link to all the past issues.

Media Attention

Five Seasons in the News

In case you missed it, here are some recent TV news features and print media articles in which FSFP has been featured:

Business Week. January 18, 2007 - In an article entitled "Going Global With ETFs," journalist Marc Hogan investigated different ways in which investors could get international equity exposure using exchange-traded funds. Paul N. Winter, principal of Five Seasons Financial Planning in Holladay, UT, suggested readers consider the MSCI EAFE Index iShare (EFA) for its low management expenses and tax efficiency. Click **here** to read this article.

Fox 13 News. February 27-28, 2007 - Paul recently appeared on Fox 13 News being interviewed by Sandy

Riesgraf on the market plunge on Feb. 27 and its effect on the real economy. (Click **here** to see a video clip of this interview - depending on your internet connection, it may take a few minutes to download.)

InvestmentNews, March 5, 2007 - Paul Winter, a Fee-Only financial planner, was quoted in an article on a new life insurance product aimed at being an investment, a tax tool, and a wealth transfer vehicle all in one policy. Commenting on so-called 'bundled' insurance products, Winter stated "Usually, clients can replicate them much more cheaply, and with more customization to their individual circumstances and objectives, using a combination of cost-effective, tax- efficient individual components." Click **here** to read this article.

Five Seasons Financial Planning is a Fee-Only financial planning and investment advisory firm registered with the state of Utah. Five Seasons offers financial planning services on an hourly basis, as well as discretionary investment management. To view past issues of "Seasonal Musings", click **here**.

One of the benefits of working with a Fee-Only investment advisory firm is full disclosure. To receive a copy of our Form ADV, which details a variety of information about Five Seasons, or our Privacy Policy, please use the contact information below.

Best wishes,

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