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*Guiding You to a Brighter Financial Future*

## Seasonal Musings

March 2007

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**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 the new Roth 401(k) plan and directly depositing your tax refund. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

### **The ABC's of the Roth 401(k) Plan**

Now that Roth 401(k) plans have become a permanent fixture, more companies will begin to offer this option to employees. With that in mind, let's take a look at the major features of this new type of retirement plan.

First of all, it's up to your employer if they want to offer you a Roth 401(k) plan together with your existing 401(k) plan. If so, all employees who wish to participate will have 2 accounts, the regular 401(k) with pre-tax contributions and the Roth 401(k) with after-tax contributions. You must declare in advance which type of plan you want to contribute to, and you can use a combination of both. However, your combined contributions still can't exceed \$15,500 this year (\$20,500 if you're over 50). Employer matches, if any, will go into your traditional 401(k) account.



Unlike Roth IRAs, anyone can contribute to a Roth 401 (k), regardless of income. Also, if and when the time comes, anyone, regardless of income, can rollover a Roth 401(k) to a Roth IRA. The best part is that distributions from a Roth 401(k) are tax-free to you as long as you started contributing to the plan at least 5 years ago and you are older than 59 1/2.

So now the question is: should you make use of this new option or stick with the old- fashioned 401(k)? The answer depends on your financial circumstances, your objectives and some assumptions about the future, but we'll explore some situations that would make Roth 401(k) contributions attractive in the next issue of "Seasonal Musings".

### **Putting Your Tax Refund to Good Use**

This year, for the first time, those of you who are expecting tax refunds from Uncle Sam will be able to have them directly deposited to an IRA account. You can choose as many as 3 different accounts, including traditional, Roth, and SEP IRAs, as well as health savings accounts (HSAs). If you'd like to take advantage of this option, though, keep the following precautions in mind:

1. **The receiving account must already be open.** This might seem obvious, but if you've never contributed to an IRA or HSA before, you must open the account first before directing the IRS to deposit your refund there.
2. **Comply with the annual limits.** Penalties may be imposed if you overfund retirement accounts.
3. **Prepare in advance.** If you intend to make your tax refund your 2006 IRA contribution, electronically file your taxes at least 3 weeks before tax day. If you file by paper or the electronic return arrives after April 17, the direct deposit will still work, but it will be considered a contribution for 2007.
4. **Check with your custodian.** Let them know whether you want the contribution to apply for 2006 or 2007. Also, make sure they will accept a joint refund into an individual account.

All in all, this new rule seems like more trouble than it's worth for most people. But if you know you'll spend your refund if you receive the check, use this new direct deposit option to help you save for the future.

### **A Final Thought on the Sub-prime Mortgage Bloodbath and Reversal of the Yen-Carry Trade**

"Only when the tide goes out do you discover who's been swimming naked" --- Warren Buffett

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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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Principal, Five Seasons Financial Planning

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