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Seasonal Musings

May 2010

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Hi Paul,

Welcome to another issue of "Seasonal Musings", the online newsletter from Five Seasons Financial Planning LLC (FSFP). In this issue, we'll be discussing Roth conversions, improvements to the UESP, and the bright side of the Euro crisis. As usual, if there are financial planning or investment topics you'd like us to cover in future issues, please drop us a line.

[Should You Convert to a Roth IRA?](#)

With all the hoopla surrounding this year's opportunity for everyone to convert IRA's and retirement plans to Roths, you would think it's a "no-brainer" decision. In fact, a Roth conversion probably only makes sense for a small minority of investors. As promised in the [last issue](#), here are some of the major factors to consider in deciding whether to convert your IRA or retirement plan account to a Roth IRA.



The Roth decision should be thought of as a trade-off between paying a known amount of additional taxes now versus paying an unknown amount of taxes some time in

the future. The IRS gets its pound of flesh one way or another. All other factors remaining equal, it's advisable to write Uncle Sam a check later rather than sooner. For this reason, an existing retirement account shouldn't be converted unless there are compelling reasons to do so.

For one subset of taxpayers, there are compelling reasons to convert to a Roth for estate planning purposes. For those of you who view required minimum distributions (RMD's) as annoyances rather than as a way to meet retirement living expenses, and who have a desire to leave retirement accounts to beneficiaries, conversions can make a lot of sense.

In converting, you stop the annual erosion of your account's value (and the annual tax liability) dictated by the RMD process. Furthermore, the tax bill resulting from the conversion reduces your estate, and any future growth in the value of the converted account is forever safe from income taxation, on either you or your beneficiaries (assuming no future changes in the related tax code to the contrary). By converting to a Roth, investors in this situation are, in effect, making a tax-efficient gift to their beneficiaries.

For the rest of us, the decision to convert is much more complicated and tenuous. However, we can say converting to a Roth IRA is a more attractive proposition:

- * if the resulting tax bill can be met from sources other than retirement accounts,
- * the longer the converted account has to grow until withdrawals must be taken by either the account owner or his/her beneficiary,
- * the greater the expected return in the account, and
- * the higher the future tax rate applicable to the owner or beneficiary at the time of eventual withdrawal is relative to the current marginal tax rate applicable to the owner.

To complicate things even further, if you decide a Roth conversion is right for you, you have a number of decisions to make about implementation. Should you convert all of your account(s) this year, or just a part of them each year going forward? And if you do convert this year, should you realize the income this year, or spread it over the next two? Your choices may not only affect your ability to qualify for various income tax deductions, exemptions, and credits, but may also have an impact on financial aid for your college-bound kids.

Far from being a "no-brainer", the choice to convert to a

Roth is a veritable "multi-brainer", a decision that should ideally involve you and your financial team putting your heads together.

**Just One More Reason Utah's a Great Place to Live
One of the Best 529's in the Country Keeps Getting Better**

A couple of weeks ago, our local [NAP FA](#) study group hosted the executive director of the Utah Educational Savings Plan (UESP), our state 529 plan and one of the best in the country. A few noteworthy takeaways from that seminar:

1. The UESP has once again reduced its administrative and investment-related fees, making a very cost-effective plan even more so.
2. The UESP has introduced a new investment option. "Option 12" is a Customized Option, which now allows you or your financial advisor to choose from among a diversified selection of Vanguard funds to comprise an asset allocation customized to your time horizon and risk tolerance.
3. The UESP has introduced an "Interested Parties" form which could allow you, the account owner, to grant permission to view your 529 account online to, say, another family member making contributions, your tax professional, or your financial advisor.
4. While I knew you could establish automatic periodic contributions to your UESP account from your bank account, I didn't know that some employers also permit you to contribute via after-tax payroll deductions as well.

For more info, visit www.uesp.org

The Silver Lining in the "Euro Crisis"

One of the major reasons that economies experience cycles of expansion and contraction, and that markets go through booms and busts, is that many financial conditions are self-correcting. The current Euro crisis is a case in point.

For example, we would expect, in a vacuum, tighter fiscal policies in Europe to hurt growth over there, and a declining Euro to hurt the profitability of our multinational corporations exporting to those markets.

A positive flipside to these developments is that recent strength in the dollar is putting a damper on oil prices, a boon to us consumers facing the summer driving season. And the recent flight to quality is driving mortgage rates

back down to record levels, helping the housing market and allowing another wave of refis to put more spending money in our pockets.

Both the 15-year fixed-rate mortgage and the 5-year adjustable rate mortgage fell to record low levels this week. So if you felt like you missed the chance to refi, make lemonade out of lemons, and consider using the current market turmoil to improve the liability side of your balance sheet.

An Interesting Factoid...

...relating to Greece's fiscal problems, courtesy of [Evan Newmark's WSJ blog](#):

"...Microsoft, Google, Cisco, Apple and Intel combined have enough cash on their balance sheets to finance the Eurozone's entire \$105 billion Greek bailout."

Five Seasons Financial Planning LLC is a Fee-Only investment advisory firm registered with the state of Utah. Five Seasons offers integrated wealth management, as well as investment counseling and financial planning services. 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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