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CRAIG WILLEKE'S FINANCIAL NEWS DIGEST

MONEYLINE

"Backdoor" Entry To A Roth IRA

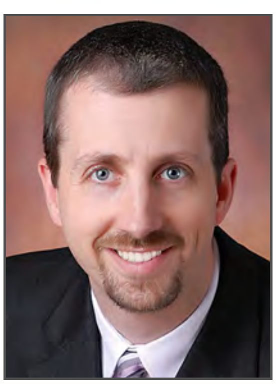
Courtesy of Craig Willeke, LUTCF, CLTC

So you earn too much to contribute to a Roth IRA. First off, congratulations. Earning too much is a good problem to have.

For 2014, direct Roth contributions are banned for singles with adjusted gross income over $129,000 and couples filing a joint return reporting AGI over $191,000. But there's no income limit on contributions to a non-deductible traditional IRA or for converting one to a Roth. You have until April 15, 2015, to contribute up to $5,500 to an IRA for 2014 (or up to $6,500 if you turn 50 or older in 2014).

There's no legal requirement for how long the money needs to be in the traditional IRA before moving it to a Roth.

If the new contribution is the first and only money you have put in a traditional IRA, you'll owe tax when converting to a Roth only on any earnings between the time of the contribution and the conversion. But if you have other money in traditional IRAs, the tax issue is trickier: your tax bill will be based on the ratio of your nondeductible contribution to the total balance in all of your traditional IRAs. As always, be sure to consult your CPA for tax advise.



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Don't count on five-year performance to judge mutual funds, we hear from Kent Thune, CFP. *Reason:* Enough time has passed so that the five-year time frame omits the bear market of 2007-2009. If a fund manager performs well in bull markets but tends to stumble badly when the market is weak, you won't learn this important information from today's five-year track records. *Better:* Analyze 10- and 15-year returns as well when selecting funds, and also zero in on the fund's performance in 2008 compared with other funds in the same category.
Source: Bottom Line Personal Magazine

Rolled-back-odometer fraud is increasing. Digital odometers in most newer cars can be changed with plug-in devices that override the cars' computer systems. It is estimated that odometers on more than 190,000 used cars are rolled back each year, costing buyers $760 million in lost value and repairs. *Before buying a used car:* Get its service records, and enter the vehicle identification number (VIN) online at Carfax.com to check the odometer history (cost: $39.99 as part of a report on the vehicle's overall history).
Source: today.com

"The only reason a great many Americans don't own an elephant is that they have never been offered an elephant for a dollar down and easy weekly payments."
— Mad Magazine

My Employer Now Offers A Roth 401(k). Should I Invest In It?

By Sandra Block, Kiplinger's Personal Finance

Consider investing a portion of your 401(k) contribution in the Roth. Contributions to a Roth 401(k) won't reduce your tax bill now. But as with Roth IRAs, withdrawals from Roth 401(k)s are tax- and penalty-free as long as you've had the account for five years and are at least 59 1/2 when you take the money out.

Because there are no income limits on Roth 401(k) contributions, these accounts provide a way for high earners to invest in a Roth without converting a traditional IRA. In 2014, you can contribute up to $17,500 to a Roth 401(k), a traditional 401(k) or a combination of the two. Workers 50 or older can contribute up to $23,000 annually. If you get matching funds from your employer, they go into a traditional pretax 401(k) account.

If you expect your tax bracket to decline when you retire, the Roth 401(k) loses some of its appeal, but it's still the superior option for many savers -- even those who are close to retirement, says Stuart Ritter, financial planner for T. Rowe Price. If you take withdrawals from taxable and tax-deferred accounts and leave the money in the Roth for decades, tax-free earnings will continue to pile up.

If, however, you plan to withdraw money from the Roth within 10 years and you expect your tax bracket to drop significantly in retirement, then you might come out ahead with a traditional 401(k) plan, Ritter says. But you'd lose the flexibility to take tax-free withdrawals for major expenses, such as home repairs or medical bills. And a large withdrawal from a tax-deferred account will increase your taxable income, which could affect everything from taxes on your Social Security benefits to the size of your Medicare premiums.

Although the rules require owners to take distributions from Roth 401(k)s starting at age 70 1/2, you can get around that by simply rolling the Roth account tax-free into a Roth IRA.

The law now allows employees to convert funds from a traditional 401(k) plan to a Roth 401(k), if the plan allows it. About 50 percent of large employers offer a Roth 401(k), according to human resources consultant Aon Hewitt. Of those employers, 27 percent allow in-plan conversions, and an additional 16 percent expect to add that option this year.

You'll have to pay taxes in the year you convert, just as you would if you converted a traditional IRA to a Roth. Plus, a large conversion could bump you into a higher tax bracket. Note that unlike converting from a traditional IRA to a Roth, you can't change your mind and undo a 401(k) conversion to a Roth.

Retirement: Pushing The Pause/ Restart Buttons

By Jane Bennett Clark, Kiplinger's Personal Finance

Working past 66 may not be everyone's idea of a dream "retirement," but for many baby-boomers, it could represent the future. A 2013 Wells Fargo survey showed that one-third of respondents expect to work until "at least 80" for lack of retirement savings. A steady paycheck means you have more time to save, and the nest egg you've accumulated can keep compounding, says Christine Fahlund, vice-president and senior financial planner at T. Rowe Price Investment Services. Other reasons to work past quitting time: You want to stay engaged by working part-time, or you're eager to start a new venture.

Judith Kennedy, a psychologist in Rapid City, S.D., retired from her private practice about five years ago, when her husband was diagnosed with dementia. "We wanted to take some trips on his bucket list while he could still travel," she says. Two years ago, when Kennedy was 68, her husband entered an assisted-living facility, and she restarted her practice, working about 20 hours a week. Kennedy uses her earnings mostly to finance trips; she visited China last fall. "I'm going to work as long as I have my health and can do something meaningful while also having fun," she says.

Kennedy represents a new trend: the revolving-door approach to retirement. A 2013 study by Merrill Lynch reported that 71 percent of pre-retirees want to work in retirement, but "most are seeking flexible work arrangements," such as working part-time or alternating between periods of work and time off. Ernestine Fickerson, 75, a travel agent in Ventura, Cal., took that concept to a new level. She spends months at a time working as a tour host on cruise ships (she gets the cabin free and covers other costs herself). At home, she works from one to eight hours a day setting up trips for clients, for which she gets a commission.

A few companies, including Abbott Laboratories, the pharmaceutical company, and Bon Secours Virginia Health System, headquartered in Richmond, offer formal programs that let employees work fewer hours, take longer breaks or phase out of current responsibilities and into mentoring roles. More often, the arrangements are informal, says Anna Rappaport, a consultant on retirement and benefits in the Chicago area. An employer may allow a senior employee to work fewer hours as an incentive to stay longer or offer flexible hours to all employees.

No matter what the setup, know the implications. Working fewer hours not only reduces your income but could also affect your eligibility for employee health benefits and the amount of your employer-provided life insurance.

Investments and Financial Planning

"Good news — you can't afford to be old, so that means you're still young!"

Tougher mortgage requirements for the self-employed: New rules from the Consumer Financial Protection Bureau (CFPB) require lenders to verify borrowers' income and confirm a debt-to-income ratio of no more than 43%. This means much closer scrutiny of paperwork from the self-employed. Expect to be asked for two years of personal and business tax returns, a profit-and-loss statement, a statement of assets and liabilities and a clear explanation of any declining income trend. Some ways self-employed people minimize tax liabilities, such as capital losses and net operating loss carryovers, now may count against them in mortgage applications. Borrowers self-employed for less than two years may be unable to get mortgages at all.
Source: Bottom Line Personal Magazine

IRS withholding: Calculate how much should be taken from your paycheck so that you owe less next year. Includes a link to the IRS W-4 form (*Employee's Withholding Allowance Certificate*), which you fill out and give to your employer. Go to IRS.gov (search for "Withholding Calculator").
Source: IRS.gov

"Success is often the result of taking a misstep in the right direction."
— Al Bernstein

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Make Money The Way Keynes Did, By Investing Wisely

Elliot Raphaelson, Tribune Content Agency

John Maynard Keynes is recognized as one of the great historical economists. Aside from his theoretical work, though, he accomplished something few other academic economists have: He was a successful investor. Keynes used his expertise to build a multimillion dollar fortune while providing counsel to the likes of Winston Churchill and Franklin Roosevelt.

Here are some of Keynes' keys to wealth that are still valid today.

Probability is not the same thing as certainty: Just because an investment went up in value last year doesn't mean it will go up this year. Don't invest on the assumption that past returns are a good predictor of future prices.

Opposed risks help balance your portfolio: Consider a mix of assets that are truly uncorrelated to give you real diversification. This means balancing the stock market with the bond market, real estate and cash or cash equivelents. Some believe that this key is one of the significant reasons for Keynes' success.

Don't move with the crowd: Being a contrarian often pays off. A significant percent of investors increase their purchase of stock market investments at market peaks, and sell at market bottoms. Many investors bailed out of stocks in 2008 at market bottoms and either never returned or returned at much higher stock values.

Invest for the long term: It is essential to have a long-term investment policy. Don't invest based on what you perceive as the current environment. Rebalance once a year. This will ensure you do not have too much invested in one asset class. In this way you will be taking some profits and investing in an asset class that may be currently undervalued.

Drink more champagne: Apparently this is said to be Keynes' one regret — that he had not enjoyed life more. His point is that the objective of investing is to ensure prosperity, not become obsessed with making money.