Spring 2011

TCI WEALTH ADVISORS, INC.

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UPCOMING EVENTS:

TCI Art Exhibit

Through May 9, 2011

TCI Spring Webinar

May 26, 2011
3:30—4:30 PM

You can view previous TCI Webinars on our website under 'TCI Resources' and then 'TCI Events'.

To Convert or Not To Convert?

Mickey Abeshaus, MD

That seems to be the question on everyone's mind since the large changes in the new rules regarding IRA conversions to Roth IRAs. These changes have been written about significantly, but let's review them briefly here. Before 2010, there were relatively low Adjusted Gross Income (AGI) limitations to either contributing to a Roth IRA directly or converting a regular IRA to a Roth. The phase-out of a couple's ability to contribute to a Roth began at an AGI of $167,000 ($169,000 for 2011). The AGI cap to allow an IRA conversion was only $100,000. These limitations precluded many, if not most, from ever owning a Roth IRA at all.

Remember that a regular IRA grows tax deferred - the account holder will pay regular income tax when mandatory withdrawals begin – while a Roth IRA grows tax free. After paying tax on the initial contribution to a Roth, one *never* pays tax on withdrawals again. Furthermore, a Roth IRA does not have mandatory withdrawals in the account holder's lifetime. Given that one will never pay tax on the money once it is in a Roth and the account can compound over one's entire life, we are talking about some serious dollars. Just one $5000 contribution growing at 8% compounded for 40 years will become $108,623. Ten years of contributions compounded at 8% for 40 years will grow to $837,485. Until 2010, however, there was no way for

For the 2010 tax year, the previous Adjusted Gross Income (AGI) limitation of $100,000 for IRA conversions to Roth IRAs was lifted. Most of us know about this. Perhaps we have even discussed with our advisor whether we should consider a conversion of our existing regular IRA to a Roth. What most of us have not considered is that if we do not own an IRA account or have a relatively low dollar IRA balance, we now have the opportunity to convert our regular IRA balance *every year* without tax consequences. This is the overwhelming benefit of the removal of the AGI conversion limit.

This so-called "backdoor Roth IRA" works like this. Open both a regular IRA and a Roth IRA account. Contribute $5000 (or $6000 if you are over 50 years old) to the regular IRA account. This contribution may or may not be deductible based on yet another AGI limitation. Whether or not the regular IRA contribution is deductible is not relevant as we will see. As soon as the money is in the regular IRA account, do a conversion to the Roth. Repeat this process every year. It is that simple. The effect will be to make a *post tax* contribution to the Roth account (as all Roth contributions are). While high income taxpayers (>$167,000 AGI) may not contribute directly to a Roth IRA, anyone may do a regular Roth conversion.

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This effectively allows anyone to get post tax dollars into a Roth where they will grow tax free.

There is an even bigger potential benefit for couples as both of you can do this hence doubling your benefit to an annual $10,000 contribution. That's over $2,000,000 just in your 40 year lifetime. If you are still in your 30's – wow, don't even get me started. If you are able to leave money to your heirs, these Roth IRA dollars are a very effective tool for that as well. Though your heir(s) must begin required minimum distributions from the Roth, this annual calculation is done based on their life expectancy not the original account owner's. So if the money is left to a young individual, say a grandchild (or grandchildren), relatively small amounts will have to be withdrawn each year. The balance will continue to compound *tax free!*

There is one important caveat to consider when you have more than one Traditional IRA. If you have made nondeductible contributions to your traditional IRA in the past (hopefully, tracked all along on IRS Form 8606), you can't pick and choose which portion of the traditional IRA money you want to convert to a Roth. The IRS looks at all traditional IRAs as one when it comes to distributions, including Roth conversions. Traditional IRA balances are aggregated so that the amount converted consists of a prorated portion of taxable and nontaxable money. For example, assume that you have two IRAs, one with $50,000, which is entirely after-tax contributions, and another with $200,000, which has no after-tax contributions. If you elect to convert only the smaller traditional IRA, thinking it might be accomplished at no tax cost, you may get an unwelcome surprise. The aggregation rule allows you to treat only $10,000 as a tax-free return of capital [$50,000 X (50/250)] and the remaining $40,000 will be taxed as ordinary income when the conversion occurs.

Each year's contribution must be made by tax day of the subsequent year. The conversion can be done at any time though we want to do this as soon as possible after the contribution is made so as to avoid any growth in the regular IRA which would be taxable at conversion. If the conversion is done within a few days or even weeks, this amount is going to be negligible.

Thus, if you are in the savings or "accumulation" phase of your life and are used to saving post-tax dollars or simply have never opened an IRA (or even have a small balance IRA), you can get "free" tax free growth on your money courtesy of the IRS. Hopefully, this will have us feeling just a smidgen better as we put an end to this tax season.

Mickey Abeshaus, MD utilizes his many years of experience as an orthopaedic surgeon in helping clients identify their financial issues and goals as well as design and implement client appropriate solutions. He is currently studying to receive his CFP® designation.

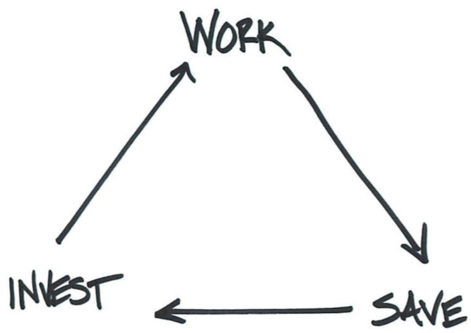
Employee Spotlight: Aubree Jensen

This quarter we spotlight Aubree Jensen who works in the Operations department of TCI. Aubree joined TCI almost 3 years ago as an operations assistant but her current role is as the firm's Internal Accountant. Her responsibilities in that position include payroll, client billing, financial reporting as well as both accounts payable and accounts receivable. Aubree is also on the receiving end of many customized reporting and data requests from various departments within the firm so the last item on her list of responsibilities was very accurately described as, "Whatever else I am asked to do"! That diversity in her responsibilities is a perfect fit for her as she describes learning as her favorite aspect of her job. Aubree greatly enjoys the challenge not only of learning a new skill or how to accomplish a new task, but also how to take an existing process and learn how to make it more efficient.

Aubree was born in Mesa, Arizona but grew up in Tucson. She remained in Tucson until after high school when she moved to Utah to attend Weber State University. She returned to Tucson , accepted a full-time position with TCI and transferred to Northern Arizona University in order to finish.her degree. She is planning to graduate next May with a Bachelor's Degree in Business Administration. Aubree has been married to her husband Matthew for two years and they have a nine month old daughter named Taylor. Being a mom to Taylor is the light of Aubree's life and as she describes it, "Keeps her on her toes"! Aubree loves to spend time with her family and one of her favorite activities is to take Taylor shopping with her. Aubree says that Taylor loves to run her hands through clothes as they walk through the stores and at nine months old, she already likes to choose her own outfits! In her free time, Aubree volunteers at her church working with the children of her congregation. She assists in teaching them as well as making sure that their spiritual needs are being met. In addition to working with children, she also really enjoys scrapbooking and cooking.

Building Your Personal Economy

By Carl Richards, NY Times Blog Contributor



The world is getting more complex, and with complexity comes confusion. We're bombarded by reports about quantitative easing and de-leveraging, subjects that make little sense to the average investor. Since no one really knows the impact of these financial tools, we've entered uncharted territory.

When we're faced with things that we don't understand, it can generate anxiety and fear. Real people often obsess over the consequences of future events, even if they're beyond our control. So here are three things to remember when you feel like you have no control or understanding of how the world is about to change:

1) These things are not problems now.

When I start to worry about future events, I've found that it's helpful to focus on what's going on right now in my life. Often, I find that I don't have any problems right now, at this very moment. To be clear, I'm not pretending it means that I don't have things going on that could have a significant impact on my life. Without question, we all need to deal with these types of concerns, but it helps to isolate that exercise from the reality of everyday living.

2) Focus on your personal economy and stop worrying about the global one.

There's much that's still in your control if you focus on your personal economy. That's why I love this quote from Jim Rogers: "Any economy which saves and invests and works hard always wins out in the future over countries which consume, borrow and spend." When things get really complex, I find that it often helps to focus on my personal situation. I can still figure out a way to spend less than I make and invest in myself or my business (over which I have a little bit of control). And I can definitely get out there and work hard.

3) Forget about finding the best investment.

Most of us spend too much time scouring the planet for great investments when we could be working or trying to figure out how to earn a little more. Making wise decisions about how you invest your money is important, but it doesn't have nearly the impact of working hard and saving more. I've found that it helps to think of earning money as my job and investing as a tool to protect the money I've earned.

Of course that means that I might have to watch from the sidelines as the markets scream to new highs. But if taking this approach allows me to focus on earning more, starting a side business or even just worrying a bit less, it may lead to a better result in the long term. It's also important to remember that you have zero control over what the market does and at least some control over what you do.

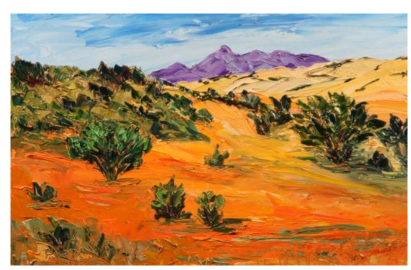
So the next time life starts to feel too complex and out of control, remember that you can get re-centered by focusing on the simple things (note: I didn't say easy) you can do to impact your personal economy.

TCI Hosts Local Artist Exhibit in Tucson

The latest installment in TCI's ongoing art exhibits is now on display. The most recent show features works from local artist Bernita Barfield. The exhibit will be on display through the first week in May, 2011. The public is welcome to visit the exhibit Monday through Friday from 3:00—4:00 pm.

Artist Bernita Barfield

In describing her work, Bernita says that the vast and majestic views of the Southwest are her constant source of inspiration. She states that she tends to resist the many rules of art, the "always and nevers" as she finds they can be too confining and restrictive. As much as she paints for her own pleasure, she is deeply humbled and gratified when others connect with her art.



Meadows & Mountains—

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