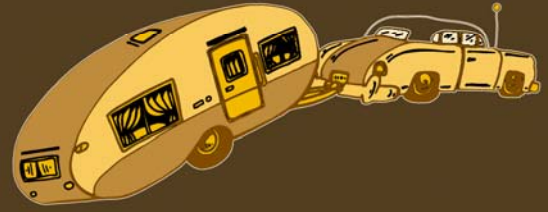


# Retirement Rambler

**SOUTHWEST**  
Retirement Consultants



Volume II, Issue I

January, 2007



**1964 Rambler American Hardtop with 196 cu inch "straight 6", 2 barrel carb and wire wheels**

The RETIREMENT RAMBLER is published by:

John McGlothlin, editor

**Southwest Retirement Consultants**

9600 Mopac, Suite 220  
Austin, TX 78759  
(v) 512-342-7063  
(f) 512-342-1896

www.swretirement.com  
info@swretirement.com

Investment advisory services are provided by

**Southwest Retirement Advisors, LLC**

## The Gift of Roth

I know that Christmas was last month, but are you looking for a gift for that young adult member of your family? You know, the one working at his or her first full (or even part time) job and who is not the least bit concerned with things like retirement accounts.

Consider the merits of opening a Roth IRA account for them. Why a Roth? The answer is simple. It is the only vehicle that can provide multiple deductions of **tax free** investment growth.

What are the rules, you ask? First, the accountholder must have earned income (i.e., a job). Second, that earned income cannot exceed \$110,000 (single and head of

household) or \$160,000 (married filing jointly).

How much can be deposited into the account? The maximum contribution per year for 2006 and 2007 is the lesser of 1) 100% of earned income, or 2) \$4,000. This means that if your young adult has earned at least \$4,000, then you could contribute up to that amount on their behalf into a Roth IRA.

What makes a Roth account really unique is that once an individual has reached the age of 59½, and his/her account has existed for more than five years, all withdrawals are totally **TAX FREE!** This means that your young adult will never pay income tax on any of the investment

gain. Further, unlike the Traditional IRA, the accountholder is not required to take minimum required distributions at age 70½. This means these funds could be passed income tax free to the accountholder's heirs who can continue the tax-free treatment by taking distributions over their life expectancies. What a deal!

So, what's the catch? The biggest downside is that the accountholder does not get a tax deduction when contributions are made. However, that deduction may mean little financially to your young wage earner. He is giving up a modest tax deduction now for a lifetime of tax free investment return. Go figure!

### Market Update

Index	Dec, 2006	YTD, 2006
Dow Jones Industrials	+2.11%	+19.05%
S&P 500	+1.40%	+15.79%
Russell 2000 (small cap US stocks)	+0.34%	+18.37%
MSCI EAFE (developed foreign mkts)	+3.14%	+26.34%
Lehman Bros Aggregate Bonds	-0.58%	+4.3%
3-Month T-Bill (Source: Morningstar, Inc.)	+0.42%	+5.07%

### Plan Limit Update

Plan	2006	2007
IRA Contribution (including Roth)	\$4,000	\$4,000
IRA Catch Up (age 50+)	\$1,000	\$1,000
401(k), 403(b) 457 deferrals	\$15,000	\$15,500
401(k), 403(b) Catch Up (age 50+)	\$5,000	\$5,000
Aggregate 401(k), 403(b) Contribution (\$415(c)(1)(A))	\$44,000	\$45,000
Max Compensation Considered	\$220,000	\$225,000