



## Are you Ready for Roth 403(b) and 401(k)?

*by John Clouden*

A big change is coming to the 403(b) and 401(k) marketplace on 1/1/2006 and now is the time to examine if these changes can benefit you. Under the Economic Growth and Tax Reconciliation Act (EGGTRA) of 2001 many changes for the 403(b) and 401(k) tax codes were addressed. These changes included increasing contribution limits, age catch ups and a more clear definition of employer contributions for 403(b). The one area that has been overlooked is the implementation of the **ROTH 403(b) and ROTH 401(k), beginning 1/1/2006**. That's right, under the current tax laws, you will now have the option of contributing to a Roth 403(b)/401(k) or a traditional style 403(b)/401(k). You even have the option to split your contributions between the two! If your employer offers both of these plans, you will have to look at your financial situation and consider whether a traditional or Roth contribution will be the best for you.

There is no easy way to make this determination. You will have to sit down with your financial advisor and carefully weigh your options. In some situations it will make sense to continue with the traditional plan, and in others the Roth plan will be more beneficial. In some cases, if both spouses are working, it may make sense to have one spouse use traditional and the other use Roth.

My point is that everyone's personal situation is different and you should come in and speak with us about your current financial matters in order for us to make the best determination for you. This is a very exciting change to the current laws and may only be around for a short time. EGGTRA is due to "sunset" in 2011 and all of the current laws changed by it would revert back to pre-EGGTRA limits and Roth 403(B) and 401(k) would be eliminated. This makes it even more important to update your information and come in for a review soon.

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## The Power of a Roth IRA

The greatest difference between a Roth IRA and most other retirement plans is that you use after-tax dollars to make your contribution. Contributions made into an IRA or 401k account use pre-tax dollars. This seemingly small change leads to a world of difference: unlike a 401k or traditional IRA plan the Roth IRA does not require the contributor to pay tax every time a withdrawal is made, if they follow the guidelines disclosed below.

Roth IRAs tend to be more flexible when it comes to taking withdrawals. With an IRA, the owner is required to start taking withdrawals at the age of 70 ½ years old or risk forfeiting a portion of their savings to the government. These withdrawals are then taxed at the retiree's current tax rate which is generally lower than when they were working. With a Roth IRA, if the funds are not needed they can be left in the account for as long as the owner would like and continue to earn interest. The contributions to the account can be taken out at any time for any reason. Earnings grow tax deferred and can be withdrawn free from federal taxes provided the contributor must have owned the account for five years and meet one of the following criteria: (1) they are 59 1/2 years old; (2) the contributor is deceased; (3) the contributor has become disabled; or (4) for the purchase or construction of your first home (\$10,000 lifetime maximum).

With all these advantages there is one major drawback: income limits. If you are a single person the contribution limit begins to phase out at \$95k of earned income, and you are no longer eligible to participate if you earn more than \$110k. For a married couple filing jointly the limits are \$150k and \$160k respectively. Currently the 2005 contribution is \$4,000 with a \$500 catch up if you are over fifty years old.

There are many factors that have to be explored before one can be sure that a Roth IRA is appropriate. If tax deductions are needed to offset high earnings, then the tax deferral of a traditional IRA or 401k plan would work best. However, if retirement income is expected to exceed current income then the Roth as an income source in retirement may be advantageous. If it is certain that the funds will not be needed by age 70 ½, and are going to be used primarily to leave as an inheritance then the Roth IRA might be the best choice. If a person believes that they may have to access their retirement savings prior to retirement then a Roth IRA offers more flexibility with fewer restrictions than other retirement accounts. As always, if you want more information, give the office a call.

# *A personal thank you from Joe*

Dear Valued Client,

I hope that all of you enjoyed our incredible summer and used this wonderful weather to spend more fun time with your family and friends. The market, like the weather, has also been very cooperative since the beginning of July. I recently reviewed a study that very convincingly shows our current market is still 35.1% undervalued. With over \$5 trillion in cash still on the sidelines and such low valuations, it makes a great deal of sense to have a good chunk of your long-term money in this area.

What really confounds me is the price of oil hovering around \$67/barrel. How do you explain a \$67 barrel of oil when the Saudi's dig it out of the ground for around 50 cents...that's right, 50 cents per barrel! We're simply being held hostage by these individuals and we don't have an effective energy policy to deal with it. This should include significant incentives for exploration and drilling with careful attention to our environment. Please contact your congressman to support such an energy policy.



Beginning January 1, 2006, you may be eligible to do either a Roth 401(k) or Roth 403(b)/ TSA. Read John's article on the front page for the details. My guess is that there will be some runway of time (maybe a long runway) before your employer or school system provides this as a choice. My personal feeling is that the vast majority will be better off staying with your current 401(k) or 403(b) pre-tax options. You will more likely be in a lower tax bracket by the time you retire and most of you will pay little or no state taxes on withdrawals after age 59½.

Our community golf course will be approximately 80% built by the time you receive this newsletter. It is getting very exciting. Thanks to all who supported our incredibly successful golf course fund raiser at Holiday Valley on August 17th. We had a ton of fun and raised a lot of money for our First Tee Kids learning programs.

I hope to see you on October 4th at the Adam's Mark for another one of our fabulous Client Appreciation Nights (see the back page for more details). We are going to have some great speakers (including the awesome Leo Wells) along with some terrific food. So call now to ensure your registration, bring a guest and come hungry as there will be food aplenty. ☺ ☺ ☺

Thanks again for your wonderful and continued support. Be sure to schedule in for an appointment if you haven't been in for a year or more.

All the best!!

A handwritten signature in black ink, appearing to be the name 'Joe' with a stylized flourish.

# The First Annual WNY First Tee Golf Tournament at The Holiday Valley Resort on August 17, 2005

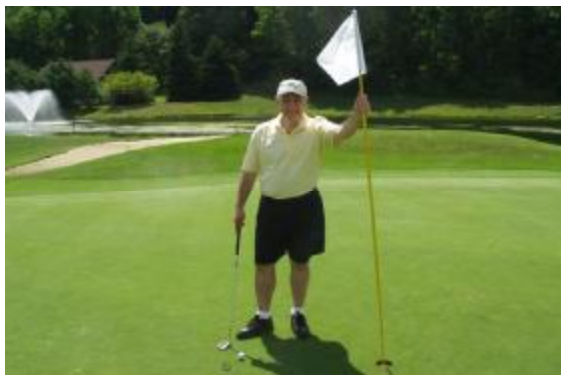
Thanks to all who participated in this highly successful event. We hope to have even more success at the second annual fund raiser next year. Here are some snap shots of the event.



Rick Gurney (right) and the guys get lunch before the big event.



Ralph "Chico" Galanti (right) gets ready for the first hole.



Joe shows off his best shot of the day.



Dave Gerspach and Frank Calieri prepare for their next shot.



Jim Ball (right) and his group say "cheese" for the camera.



Members of Sgroi Financial with golf pro Patty Jordan



Joe and his AM Buffalo host Linda Pellegrino at the dinner.



Linda as our "auctioneer" caps off a highly successful event.

**You and a friend are cordially invited to our  
Client Appreciation Night**

**Featuring speakers from  
*Oppenheimer Funds, American Funds & Wells Real Estate on*  
Current Investment Strategies**

**This will be a fun and educational event with representatives available from a  
number of other investment and insurance companies including:  
*Security Benefit, MFS, John Hancock, Bankers Life, and others***

**Come Join us on Tuesday, October 4, 2005  
from 6:00 to 9:00 P.M**

**Adam's Mark Hotel  
120 Church Street  
Buffalo, NY 14202**

**Come hungry as food & refreshments will be served.**

**RSVP: 674-6700**

**Please call soon to make your reservation.**