



# The LegendEdge

First Quarter 2007

## Looking for Ways to *Save* on Your *Taxes*? An *IRA* may be the Answer!

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Each year when tax time rolls around, many taxpayers wish they could lower the amount they are obligated to pay. One way to lower your current tax bill is to save for retirement in a tax-advantaged account, such as a §403(b), §401(k) or SIMPLE IRA. However, contributions to these accounts must be made as pre-tax savings deposits via either a payroll reduction or an employer contribution. It is not possible to make any other type of contribution. Therefore, if you have not made the maximum allowable contribution for the tax year 2006, your opportunity to do so has passed. This also means you are not permitted to contribute to these accounts after you have retired.

However, you may be eligible to make a traditional IRA contribution, and deduct that amount from your annual income for tax purposes. You are eligible to contribute to a traditional IRA if you have sufficient earned income and you are under age 70½. The IRA contribution limit for 2006 and 2007 is \$4,000. If you attain age 50 or more in either year, you are eligible to use the Over-Age-50 Catch-Up provision, which is \$1,000. If you are an active participant in an employer-maintained retirement plan, your adjusted gross

income (AGI) must be under a certain limit to deduct your entire IRA contribution. If your AGI is over the lower limit, you might be able to deduct part of that contribution, with deductibility phasing out at the top of the range. A non-working spouse, or the spouse of an active retirement plan partici-

**Table 1 – AGI Limits for IRA Contribution Deductibility**

	2006 AGI	2007 AGI
Single taxpayer	\$50,000–\$60,000	\$50,000–\$60,000
Married filing jointly	\$75,000–\$85,000	\$80,000–\$100,000
Married filing separately	\$0–\$10,000	\$0–\$10,000
Non-working spouse	\$150,000–\$160,000	\$150,000–\$160,000

**Table 2 – AGI Limits for Roth IRA Contribution Eligibility**

	2006 AGI	2007 AGI
Single taxpayer	\$95,000–\$110,000	\$99,000–\$114,000
Married filing jointly	\$150,000–\$160,000	\$156,000–\$166,000
Married filing separately	\$0–\$10,000	\$0–\$10,000

part who is not an active participant him/herself, may be eligible for a deductible IRA, subject to another phase-out range. These limits are outlined in Table 1.

Employees of public school systems who are members of state defined benefit plans are considered to be active participants even if they do not electively defer any salary to a §403(b) account. The definition of

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# Tax Savings with an IRA

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an active participant includes an employee who is making deferrals to an employer plan, or an employee whose employer is making contributions to an employer plan on his/her behalf.

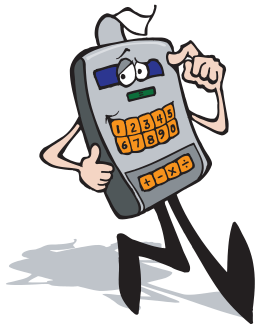
If you are not eligible to deduct a contribution to a traditional IRA, you may wish to consider a Roth IRA. Even though Roth contributions are never deductible as they are made with after-tax dollars, the benefits of tax-free retirement income may appeal to you. Eligibility to contribute to a Roth IRA hinges on your AGI and tax filing status. You may contribute to a Roth IRA as long as you have sufficient earned income. There is no age limit for Roth IRA contributions. Spousal Roth IRAs are also an option. Your eligibility to make contributions is phased out over a certain range, as illustrated in Table 2.

Keep in mind, you cannot make the full \$4,000 contribution (\$5,000 if you are using the Over-Age-50 Catch-Up provision) to both types of IRAs. This limit represents the maximum you can contribute to all your IRAs in one tax year.



**The IRA contribution limit for 2006 and 2007 is \$4,000. If you attain age 50 or more in either year, you are eligible to use the Over-Age-50 Catch-Up provision, which is \$1,000.**

There is still time to make an IRA or Roth IRA contribution for the 2006 tax year. Due to the observance of Patriots' Day and Emancipation Day in some jurisdictions, the IRS has given all taxpayers an extension on filing their 2006 Form 1040. Contributions must be postmarked no later than April 17, 2007. ◀



## 2007 Retirement Account Contribution Limits

Retirement plan contribution limits have increased for 2007! As your career progresses, you may wish to periodically increase the amount you are saving for your future. This can mean the difference between reaching your goals and falling short. Congress has mandated higher contribution limits to enable you to retire more comfortably – the rest is up to you.

	Basic	Over Age 50 Catch Up	2007 Other Catch Up	Maximum Contribution
§403(b) Plans	\$15,500	\$ 5,000	\$ 3,000*	\$23,500
§401(k) Plans	\$15,500	\$ 5,000		\$20,500
§457 Plans	\$15,500	\$ 5,000	\$31,000**	\$31,000
SAR-SEP	\$15,500	\$ 5,000		\$20,500
SIMPLE IRA	\$10,500	\$ 2,500		\$13,000
IRA / Roth IRA	\$ 4,000	\$ 1,000		\$ 5,000

\* Employees who have 15 or more years of service with the current employer may be eligible for a further catch-up of up to \$3,000.

\*\* Employees may use this catch-up in the 3 years prior to attaining normal retirement age under the §457 plan under certain circumstances.

with Shashi Mehrotra, CFA, Chief Investment Officer, Legend Advisory Corporation

## I'm planning to retire soon. What should I do to ensure my portfolio is positioned properly?

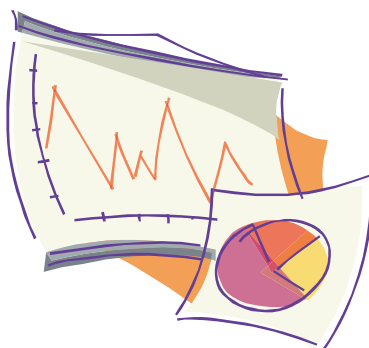
First you must determine how much income you feel your portfolio will need to produce each year and for how many years that income will need to be generated. As an example, let's consider a 65-year-old woman with retirement assets of \$1,000,000. With a life expectancy of 85 years<sup>1</sup>, she can expect to spend at least 20 years in retirement. How much income she will need to draw each year will be influenced by a variety of factors, including her lifestyle, anticipated expenses, social security benefits, pensions and any other sources of income, as well as how much she intends to leave for charities or heirs.

The current rule of thumb is that the typical retiree will need about 80% of his or her annual pre-retirement income. Let's say that in our example, the amount of income required is \$50,000. So with a million dollar portfolio, \$50,000 is 5%. And in fact, an annual income of 5% of a client's total portfolio holdings is typical of what we've experienced.

Now that you know how much income is required, and for how long, you can work on creating a portfolio with the potential to achieve the desired result. There are two ways to go about this. One way is to develop a portfolio with enough bond exposure, say 60% to 70%, to generate interest payments that will provide an income of 5%. However, in my opinion, there's a better way. I recommend a carefully crafted portfolio, preferably managed by professionals, that emphasizes equities (stocks) with a lesser allocation to bonds.

Bonds are usually employed within a portfolio for two reasons: the first being safety. And actually, I don't think this is a good reason at all because bonds face interest rate risk and inflation risk. The second reason is for the lack of correlation between bonds and equities. This lack of correlation may be a very good reason to include bonds within a portfolio.

For a retiree with a 20 year time horizon, I usually like to see a 65%/35% equity/bond exposure ratio, depending on the client's tolerance for risk.



This way, the portfolio will include more equity exposure which can provide a hedge against inflation. The lack of correlation between bonds and equities may also help the portfolio achieve an acceptable rate of return, while concurrently reducing risk. In a professionally managed portfolio with an allocation like this, it may be possible to experience a 6% to 7% average annual return over the long term. With this kind of performance, even if you withdraw 5% annually, your remaining assets could still be appreciating by 1% to 2% each year. This is a hypothetical example only and, as with any investment in the financial markets, performance is not guaranteed and investors may lose money.

## But how can I generate the income I need with just 35% of my portfolio in bonds?

With a 65%/35% equity/bond allocation, you probably won't be able to get the entire 5% income that you desire in the form of interest payments. But that's OK because bond interest payments are only one of the means for creating an income. You can also apply any capital gains your portfolio's equity component may generate toward your income needs. Currently the federal capital gains tax rate is lower than the federal income tax rate you pay on bond interest payments. Or if need be, it's perfectly all right to sell a portion of your assets to meet the remainder of your income needs, as your equity investments have the potential to appreciate in value over time.

## Haven't bonds traditionally been featured in retirement portfolios?

Yes, but with today's increased life expectancies, we're seeing equities gain a larger allocation within retirees' portfolios. I believe one of the most common mistakes today's retirees make is to have too large of a bond component in their retirement portfolios. Many investors have yet to realize that one of the biggest risks to their financial security may be not having enough equity exposure during their retirement years. They can become too conservative because they may have been conditioned to think that once you reach retirement, you don't invest in equities. I don't believe this is prudent as time horizons grow longer. Even

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*Before investing in a mutual fund, consider its investment objectives, risks, charges and expenses carefully. The prospectus, which contains this and other information about the mutual fund, can be obtained by contacting Legend Equities Corporation. Please read the prospectus carefully before you invest or send money.*

Past performance is not indicative of future results. Investors' shares, when redeemed, may be worth more or less than their original cost.

Direct investment cannot be made in any of the indexes cited and index performance is not indicative of any specific investment. Investments in foreign securities involve risks relating to political and economic developments abroad, foreign taxation, currency exchange rate fluctuations, as well as differences in accounting standards.

# Boomer Blurbs | Facts & Figures

## MARKET OUTLOOK

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when you retire at age 60 or 65, your portfolio may still have a 20 to 25 year time horizon. Although past performance is not indicative of future results, over time, equities have been one of the best investment alternatives to increase wealth and outpace inflation. In fact, if you examine the performance of the S&P 500 as far back as 1932, there has never been a ten-year period when the index has not shown a positive result.<sup>2</sup> I believe it's imperative that you maintain adequate equity exposure throughout your retirement years, to combat the risk of depleting your nest egg prematurely. ◀

<sup>1</sup> U.S. Department of Health and Human Services, *Health, United States, 2004*.

<sup>2</sup> Bloomberg.

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- The estimated number of baby boomers (those born between **1946** and **1964**), as of July 1, 2005 is **78.2** million.<sup>1</sup>
- In **2006**, the oldest members of the baby boomer generation turned **60** years old. Among these boomers are George W. Bush, Bill Clinton, Donald Trump, Cher, Dolly Parton and Sylvester Stallone.<sup>1</sup>
- The **50-plus** population controls **77%** of all financial assets in the U.S., and accounts for approximately **40%** of consumer demand.<sup>2</sup>



- The number of people who turned **60** each day in **2006** was **7,918**, according to projections. That amounts to **330** people every hour.<sup>1</sup>
- According to projections, the number of baby boomers living in **2030** will be **57.8 million**. **54.9%** of these will be female. In 2030, boomers will be between the ages of **66** and **84**.<sup>1</sup>
- In **1946**, the most popular baby names for boys and girls were James and Mary. Today, the names Jacob and Emily lead the list. James now ranks **17th** among boys and Mary is **63rd** among girls.<sup>1</sup>

<sup>1</sup> *Facts for Features Special Edition: Oldest Baby Boomers Turn 60!*, U.S. Census Bureau, CB06-FFSE.01-2, 1/3/06

<sup>2</sup> *Selling to Seniors, Monthly Report on Marketing*, Jan. 1999

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