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Dear Clients,

The beginning of a new year is often a time to reflect on the past and make plans for the future.

As we look back on 2006 at MLM, we realize that the successful launch of our firm was a direct result of the trust and faith our clients have in us combined with a great deal of hard work from everyone on our team. As 2007 begins, we will continue to work as hard as ever to offer you access to the best Wealth Management Services possible.

Our Portfolio Management, Financial Planning, and Corporate Client Groups are each working behind the scenes to improve and expand the services we provide. We look forward to sharing these changes with you as the year progresses.

We wish you all a happy and healthy 2007.

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Roth IRA Conversions in 2010

With the lure of tax-free distributions, Roth IRAs have become popular retirement savings vehicles since their introduction in 1998. But if you're a high-income taxpayer, chances are you haven't been able to participate in the Roth revolution. Well, that's about to change.

What are the current rules?

Currently, if your modified adjusted gross income (MAGI) is greater than a specific dollar amount, you can't make annual contributions to a Roth IRA:

If your federal filing status is:	Your Roth IRA contribution is reduced if your MAGI is:	You can't contribute to a Roth IRA if your MAGI is:
Single or head of household	More than \$95,000 but less than \$110,000	\$110,000 or more
Married filing jointly or qualifying widow(er)	More than \$150,000 but less than \$160,000	\$160,000 or more
Married filing separately	More than \$0 but less than \$10,000	\$10,000 or more

Even worse, if your MAGI is greater than \$100,000, you can't convert a traditional IRA to a Roth IRA. This \$100,000 limit applies whether you're single or married filing jointly. And if you're married filing separately, you can't make a conversion at all--regardless of your income level.

What's changing?

On May 17, 2006, President Bush signed the Tax Increase Prevention and Reconciliation Act (TIPRA) into law. TIPRA repeals the \$100,000 income limit for conversions, and allows conversions by taxpayers who are married filing separately, beginning in 2010. This means that regardless of your filing status or how much you earn, you'll be able to convert a traditional IRA to a Roth IRA starting in

2010. What's more, if you make a conversion in 2010, you can report half the income from the conversion in 2011 and the other half in 2012.

While the law doesn't repeal the income limits for annual Roth contributions, there's an easy workaround. Any taxpayer, regardless of income level, can make nondeductible contributions to a traditional IRA. Beginning in 2010, you can simply make your annual contribution initially to a traditional IRA, and then convert that IRA to a Roth.

Why concern yourself with this now?

Even though the new rules don't take effect until 2010, there are steps you can take now if you want to maximize the amount you'll be able to convert at that time.

For example, if you're not already making the maximum contribution to a traditional IRA, consider doing so. As noted above, you can make nondeductible contributions to a traditional IRA no matter how much you earn--up to \$4,000 in 2006, \$5,000 if you're age 50 or older. And your nondeductible contributions won't be subject to tax when you convert the IRA to a Roth in 2010--only the earnings will be taxed upon conversion. (The tax calculation is a bit more complicated if you've made both deductible and nondeductible IRA contributions.)

And don't forget that SEP and SIMPLE IRAs can also be converted to Roth IRAs. Consider maximizing your contributions to these plans now, and convert the IRAs to Roths in 2010.

Is a Roth conversion right for you?

The answer depends on many factors, including your income tax rate, the length of time you can invest the funds without withdrawals, your state's tax laws, and how you'll pay the income taxes due on the conversion. A financial professional can help you decide whether a Roth IRA is right for you, and help you plan for this exciting new retirement savings opportunity.

Is an Ethical Will Right for You?

Documents known as last will and testaments have been around for centuries. The purpose of a last will and testament is to set out what you want to have happen to your possessions after your death, usually with the objective of keeping property in the family. Wills have evolved over the years; the Romans made them legal documents, and English common law imposed strict rules regarding how they can be created and interpreted. Today, a legal will is typically written to be a clear, concise disposition, precise in structure and language—dry, bland, and stone cold.

This is unsatisfactory for many people who believe that leaving a legacy should mean more than just doling out goods to John Jr. and Aunt Sally. Perhaps that is the reason for the recent reemergence of another ancient document—the ethical will.

Leaving a legacy of values

Ethical wills may have a longer history than traditional wills, with roots in biblical times. Even before pen was put to paper, oral legacies were handed down to children and other descendants. But, unlike a traditional will that is concerned only with possessions, an ethical will imparts family history, wisdom, and love. The gifts are spiritual and philosophical, not material; the givers bequeath values, or a sense of themselves.

A growing trend has people writing ethical wills in conjunction with their traditional wills, using this device not only as a personal testament, but for a variety of purposes, such as:

- Explaining the underlying reasons for certain bequests
- Leaving instructions regarding funeral or burial arrangements
- Putting other personal affairs in order

The emotional gratification of this practice is invaluable to many people, especially the elderly and the very sick. But it's not right for everyone.

Taking a journey inward

An ethical will is not an easy thing to write. It requires you to reflect honestly on your life, do some soul searching, determine the things that count most in this world, and decide what you want to pass on to your loved ones. In doing so, you'll not only remember the positive aspects of your experiences, but you may

recall personal failures, sorrows, and regrets as well. Not everyone has the courage or strength for this journey, but it's an important first step in creating an ethical will.

Some practical guidance

Anyone can write an ethical will. You don't need a lawyer; it's not a legal document. It needn't be formal or skillfully written, as long as it serves your purpose. And it doesn't even need to be written; you can use any media, such as video or audiotape.

If you need some guidance, there are many books, websites, and kits available that provide information, step-by-step instructions, and examples. Or, you may want to consider consulting a professional counselor or your estate planning attorney. They can provide personal assistance, helping you get to the heart of the matters you wish to share.

Here are some other thoughts on how to begin creating your own ethical will:

- Start with an outline of the topics you want to cover
- If you don't know what to say, think about what you'd like to have known from your own ancestors
- Keep your sentiments positive; don't preach, and don't be critical or condemning
- Take your time; you may write several drafts before you get your message right
- Make sure someone knows about your ethical will and where to find it
- Remember that your ethical will is not legally binding; put anything you want to be legally enforceable in your traditional will

A final word

You don't need to wait until the end of your life to create your ethical will; now is the right time if you know what you want to say. And, even though an ethical will is usually read after death, you can give it to your children and other heirs anytime.

Everyone wants to be remembered. With an ethical will, you can help guide the generations that follow, and your ideas and values will live on and be treasured for years to come.



Unlike a traditional will that is concerned only with possessions, an ethical will imparts family history, wisdom, and love.

The Pension Protection Act of 2006: What It Means to You

In August, President Bush signed the Pension Protection Act of 2006 into law. While much of the news coverage has focused on provisions of the Act that shore up the nation's pension system, the Act includes many other important provisions you should know about.

Rollovers by nonspouse beneficiaries

Currently, nonspouse beneficiaries who inherit a participant's 401(k), 403(b), or 457 plan account can't roll those funds over to an IRA--rollovers are available only to spouses. And while the law generally lets nonspouse beneficiaries take distributions over their lifetimes after a participant dies, employer plans aren't required to offer that option. Nonspouse beneficiaries are often forced to take a distribution from the plan sooner than they like, and sooner than the law requires. Starting in 2007, the Act fixes this problem by letting nonspouse beneficiaries roll over funds to an "inherited" IRA, allowing them to defer taxes by spreading distributions from the IRA over the maximum period the law allows.



Hardship withdrawals

Currently, if you participate in a 401(k), 403(b), 457, or nonqualified deferred compensation plan, you can (if the plan permits) make an in-service withdrawal if you, your spouse, or your dependents incur a financial hardship. Under the Act, your employer can now also let you make a withdrawal if your beneficiary incurs a hardship. This provision, along with the nonspouse rollover rule discussed above, may be especially helpful for domestic partners.

Direct rollovers to Roth IRAs

Under current law, if you receive a distribution from a qualified plan, 403(b), or 457 plan, you can't roll those funds directly to a Roth IRA. You can, however, accomplish this indirectly by first rolling the funds over to a traditional IRA, and then converting the traditional IRA to a Roth IRA (assuming you meet the income limits for a conversion). Starting in 2008, the Act streamlines this two-step process, allowing direct rollovers from 403(b), 457, and qualified plans to Roth IRAs.

Phased retirement distributions

As the baby boom generation begins to retire, some experts are warning that employers may begin facing a shortage of skilled workers. To address this issue, some employers have established "phased retirement" programs that encourage you to continue working on a part-time basis. You benefit by having a smoother transition from full-time employment to retirement, and your employer benefits by retaining the services of a talented employee. Starting in 2007, the Act supports these arrangements by allowing pension plans to begin paying benefits after you reach age 62, even though you're still working part-time.

Repeal of sunset provisions

The Act makes permanent a number of important retirement and education provisions that had been scheduled to expire after 2010, including tax-free distributions from Section 529 plans, increased IRA and retirement plan contribution limits, catch-up contributions, Roth 401(k)s, and many others. The Act also makes the Saver's Credit permanent.

Charitable contributions from IRAs

If you're age 70½, the Act allows you to make charitable contributions of up to \$100,000 per year directly from an IRA to a qualified charity in 2006 and 2007. These IRA distributions are tax free, don't increase your adjusted gross income (AGI), and satisfy minimum distribution requirements.

And even more 2007 changes

In addition, beginning in 2007, the Act:

- Adjusts the income limits that apply to IRA contributions and the Saver's Credit for inflation
- Applies the faster vesting rules that currently apply only to employer matching contributions to all employer contributions to 401(k) and other defined contribution plans
- Allows direct deposit of tax refunds to IRAs
- Requires certain plans that invest in employer stock to offer participants at least three alternative investment options

Your financial professional can provide you with additional information about this landmark legislation, and can help you determine how the new law impacts you.



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Ask the Experts



How does an UGMA/UTMA custodial account work?

An UGMA/UTMA custodial account is a special type of account that allows a minor child to legally hold money or other property, such as stock or real estate, that the child would not otherwise be able to hold in his or her own name. It's governed by a particular state's Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA). Most states have enacted an UTMA because it allows for more types of property to be held in the account, and the account can remain open longer than with an UGMA.

A custodial account can easily be opened at a bank or other financial institution using a common form. Central to the operation of a custodial account is the custodian, who is responsible for contributing money or property to the account, managing these assets, and withdrawing from the account when necessary. Typically, the custodian is the parent, but it's possible for another person or even a bank (for a fee) to act as the custodian.

Custodial accounts have several unique features. Any money or property placed in the account is considered an irrevocable gift to the child. (Gifts qualify for the federal annual gift tax exclusion, which means you can gift \$12,000 per year to the account without incurring gift tax.) Withdrawals from the account can only be made for the child's benefit.

Any income earned by assets in the account is taxed to the child under the "kiddie tax" rules--for children under age 18, the first \$850 of investment income is tax exempt, the next \$850 of investment income is taxed at the child's rate (usually 10%), and anything over \$1,700 is taxed at the parent's rate. For children 18 and older, the first \$850 of investment income is tax exempt, and anything over \$850 is taxed at the child's rate.

When the child reaches the relevant age (generally 21 or 25 for UTMA accounts, and 18 for UGMA accounts) the custodianship ends and the child receives sole control of all the assets in the account.