

Tune Up for High-Performance Wealth

by David Borden

Each year, individuals and business owners should evaluate their wealth management initiatives to make sure they have the appropriate portfolio for their age and investment goals. Practitioners should emphasize the following key points to help clients maximize their saving potential.

☐ **Maximize retirement plan contributions.** The 401(k)/403(b) maximum contribution for tax year 2007 is \$15,500, plus a \$5,000 catch-up contribution for anyone age 50 or over. Some companies are starting to offer the new Roth 401(k), which allows clients to invest after-tax money into workplace retirement plans. While they forgo the tax deduction today, the Roth contribution plus investment gain will not be taxed when they are withdrawn after age 59½ (see “[To Roth or Not to Roth](#),” *JofA*, Feb. 07, page 64). This is a great option for younger employees as well as those who may not benefit as much from a present tax deferral. In addition, unlike the Roth IRA, the Roth 401(k) is available at any income level.

☐ **Invest in the IRA that’s right for you.** Roth IRA vs. traditional IRA—which one is better? The maximum contribution for both traditional and Roth IRAs for tax year 2007 is \$4,000 plus a \$1,000 catch-up. In general, the Roth IRA is limited to married couples with adjusted gross incomes less than \$166,000 and single filers with AGIs less than \$114,000. For those who qualify, the Roth IRA is an excellent savings vehicle. Similar to the Roth 401(k), it forgoes the tax deduction today but saves on investment gain in the future.

☐ **Rebalance portfolios at least once a year.** Investors should have an appropriate balance between stocks and bonds, depending on age, risk tolerance and personal goals and objectives. It is important to allocate assets between U.S. and foreign investments and necessary to have an appropriate mix between large and small capitalization stocks and growth and value styles. Allocations should be updated to reflect changes in the investor’s financial situation as well as market adjustments. It is critical to evaluate the mix every three to four months and rebalance at least annually.

☐ **Make year-round tax planning a priority.** Don’t wait until December to think about tax planning for the year. Business owners should make sure they have the best available retirement plans for their companies to maximize owner contributions and increase employee participation. Individuals should work with their CPA and wealth management provider to ensure they have maximized all available tax strategies, such as harvesting losses to offset gains, making every attempt to hold a gain for more than 12 months before selling, and utilizing tax-deferred retirement plans.

☐ **Have a solid estate planning strategy.** Everyone should have a will, durable power of attorney and health care proxy. These documents should be updated every three to five years or anytime a major change in family status or financial situation occurs, such as the birth of a child, a marriage or divorce, or a change of succession plans. In addition, make sure beneficiaries are updated on all retirement plans and life insurance policies to match estate goals.

☐ **Proactively manage debt.** While many people focus on the asset part of their personal balance sheet, it is important to pay attention to debt as well. Consolidate high-interest credit cards and check mortgage rates for refinancing opportunities. Many people now have adjustable-rate mortgages. Be aware of rising interest rates and costs for lines of credit.

☐ **Consider charitable giving.** Gifting appreciated stock is a good way to benefit both parties. Look into donor-advised funds. These allow a person to donate a sum of money today and generally receive the full deduction without committing all the money to an individual cause at one time; you can spread your giving over a number of years and a number of charities.

Give to children and grandchildren. You can give up to \$12,000 a year to any person without paying gift tax. Although gifts to individuals are not tax-deductible, this is an excellent way to transfer money from older to younger generations within a family. Many grandparents use such transfers to help fund college educations for their grandchildren, often through a Qualified Education Program under IRC section 529.

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