Mentor Monthly Missive

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Help yourself!

New, higher limits for retirement-plan contributions in 2013 will help people lower their tax bills and secure a comfortable retirement.

IRS has released the new figures, which increase the amounts most savers can put away for retirement. Basic limits were increased for most types of plans, based on an increase last year in the Consumer Price Index. Catch-up limits in each case remain the same as in 2012. In addition, income limitations on Roth and traditional IRA contributions were moved higher.

Here are the new IRS limits for 2013. Keep in mind that for a traditional or Roth IRA, you have until April 15 to make a 2012 contribution:

• 401(k) – 2012 limit $17,000, 2013 limit $17,500; 50-or-older catch-up remains $5,500;

• 403(b) – 2012 limit $17,000, 2013 limit $17,500; 50-or-older catch-up remains $5,500;

• 457 – 2012 limit $17,000, 2013 limit $17,500; 50-or-older catch-up remains $5,500;

• Traditional IRA – 2012 limit $5,000, 2013 limit $5,500; 50-or-older catch-up remains $1,000;
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Meet our Wealth Managers

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Mentor Capital Management Inc. was founded in response to the belief that a consumer's best interests are served when his or her financial planner is Fee Only. Advisors of Mentor Capital strive to provide objective, prudent and thoughtful advice to clients based on their personal goals and objectives.

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• Roth IRA – 2012 limit $5,000, 2013 limit $5,500; 50-or-older catch-up remains $1,000;

• SIMPLE IRA – 2012 limit $11,500, 2013 limit $12,000; 50-or-older catch-up remains $2,500

The importance of wage-earners using tax-deferred retirement plans to secure their future cannot be overstated. If you're expecting someone else to take care of you in old age, for example Social Security, a pension, children, grandchildren, that could be a big mistake. Social Security is headed toward the chasm, pensions are in deep trouble, and your children and grandchildren have worries of their own.

So you owe it to yourself – and your children and your grandchildren – to contribute toward your own retirement.

Call to speak with an advisor to see how these new limits might apply to you.

Roth IRA Versus Defined Contribution Plan

Contemplating whether to contribute to a Roth IRA or a defined contribution (DC) plan (such as a 401k)? Words of advice: Follow the money! If your company offers you a match for your DC plan contribution, you should keep investing in the account up to the maximum percentage that it will match. This is free money, and you won't find a better deal any place else.

After you've maxed out the match, it's probably wise to invest any remaining cash in a Roth IRA. You can put in as much as $5,500 in 2013 ($6,500 if you are 50 years or older), as long as your income doesn't top certain levels. You won't get any tax deductions with the Roth, but you won't have to pay any taxes on it for the rest of your life, which can turn out to be an advantage over a DC plan. Another plus for the Roth is that you can keep your money there forever, as opposed to a plan like a 401(k), from which you have to start taking withdrawals by age 70 1/2.

With a Roth IRA, one big advantage is the ability to take certain early distributions without paying the early distribution penalty. If you withdraw assets from an employer plan before retirement, you'll pay a penalty and taxes (but many firms offer employees the option of taking loans from their accounts).

If you're fortunate enough to still have money to invest after you've maxed out on your Roth IRA, then by all means start putting it back into your DC plan. It's a good idea to have retirement money in different types of accounts, because you never know what the tax laws will be 30 years down the road. Please consult with a financial advisor or tax professional for the latest rules and regulations.

Monthly Market Commentary

The worst of the fiscal cliff crisis was averted as Congress managed to come to a deal at the eleventh hour. As part of the deal, tax rates will go up for high-income earners, and the payroll tax holiday will expire, affecting income earners across the board. The new tax rates may slow the economy, but also decrease some of the uncertainty. Markets reacted positively, with the S&P 500 jumping more than 4% in the first week of January.

GDP: The third and final estimate for third quarter real GDP growth was revised sharply higher to 3.1%, from an initial estimate of 2.0% and also higher compared with the second quarter real GDP growth rate of 1.3%. This makes it the third-best quarter of the 13-quarter recovery. Consumption and import/export figures were revised upwards, while inventories were less of a contributor than previous estimates.

Employment: In December, 155,000 jobs were added, mainly from strong growth in the health-care and construction sectors. More importantly, hours worked and hourly wage rates were also up. Taking into consideration average hours, average wages, and employment, Morningstar economists believe that total private wages grew at a stunning 0.7% in December (8.4% annualized). Given that there was limited inflation in December, these gains may flow almost immediately to consumers. Going into January, with higher taxes, this large income growth will provide consumers with a substantial cushion. The unemployment rate in December inched up slightly to 7.8%.

Housing: Original housing market forecasts for 2012 ranged from more doom and gloom to minuscule improvements. Instead, the U.S. got a year of considerable advancement, with home inventories down significantly, which has led to higher prices across the board. With inventories so low, it is now difficult to buy a home in many markets, especially on the West Coast. Home builders are also constrained by raw material prices going up, as well as a shortage of construction workers. Morningstar economists believe that home price gains of 5% or more for all of 2012 are pretty much certain, but volume-related housing metrics will slow in 2013 given these supply constraints.

Auto: Auto sales in December were at about 15.4 million units, down slightly from the 15.6 million units sold in November, which benefited from required replacements associated with Hurricane Sandy. The auto industry has been a real plus for the U.S. economy. The durable goods sales category (mainly comprised of autos), has been the single largest contributor to the economic recovery so far. While much of Europe is struggling with declining auto sales, the U.S. managed to pull out another year of very impressive growth.

Retail: Holiday sales (essentially November and December) were up 3.1% from a year ago. Sales in December showed a sharp improvement compared with November, which reflected the impact of accounting for layaway sales, Hurricane Sandy, and the timing of Cyber Monday this year. Overall, the holiday season was good, but not great. Consumer headwinds were substantial, ranging from Hurricane Sandy at the beginning of the season to worries about the fiscal cliff at the end of it. Thankfully, improved consumer incomes, falling gasoline prices, cooler temperatures, and more discounting at the end of the season, all helped boost sales.

Year-end insights: Despite odd weather patterns, presidential election jitters, and fiscal cliff concerns, 2012 was filled with much positive news for the U.S. economy. This included higher oil production, an improved auto industry, decreased commodity prices, and a stabilizing housing market. Unfortunately, the same could not be said about Europe, which entered a recession, or China, whose growth slowed dramatically. The relative strength of the U.S. economy also translated into benefits for consumers, who experienced steady employment growth, stable inflation, rising financial assets, and a nicely improving real estate market.

Social Security expands online functions

Social Security is expanding information available through its personal online account system.

Beneficiaries can now receive instant benefit verification letters, payment history and earnings records through their online accounts rather than wait for verification through the mail. The expanded services are part of the Social Security Administration's efforts to make more services available through the Internet. Beneficiaries now also can change their address and start or change direct deposit information online.

An online account can be set up by anyone 18 or older by going to www.socialsecurity.gov/myaccount. The site provides information on personal earnings and future benefits.

Social Security invites everyone to set up an on-line account no matter what their age.

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