Avoid premature withdrawals and penalties

Many IRA owners know they can be hit hard with penalty fees if they withdraw money early — typically before age 59½. Fortunately, there are ways to avoid these fees if an emergency or other qualifying situation arises. But even with these allowances, you'd be wise to make every effort to avoid taking money out of your retirement accounts early, especially if you are young. By withdrawing money, you lose decades of tax-free compounding which could potentially cost you hundreds of thousands of dollars by the time you retire.

Stuff happens

But, as it is often said, stuff happens — and it usually costs money. That's where an emergency fund comes in. Experts suggest keeping at least three to six months' worth of basic living expenses in your emergency fund — perhaps more if you don't have short- and long-term disability insurance.

Do you have a plan?

Saving money is a basic concept of a personal financial strategy, yet many of us don't have a formal savings or spending program. Having a spending strategy — aka "budget" — may help you *create* money for savings. By setting realistic spending goals, most of us can manage to save regularly.

If you don't already have a written budget that includes tracking your expenditures each month, you should consider establishing one now. Decide on a percentage of your gross income to designate as savings — 10 percent is a good starting point, but if you honestly can't find a way to set aside that much, then start out with a lower amount.

Where to keep it

If you keep your emergency fund separate from your other accounts, it's easier to leave it alone. If you're forced to dip into your fund for an emergency, consider it a loan that must be paid back in a reasonable period of time — and set up a repayment schedule.

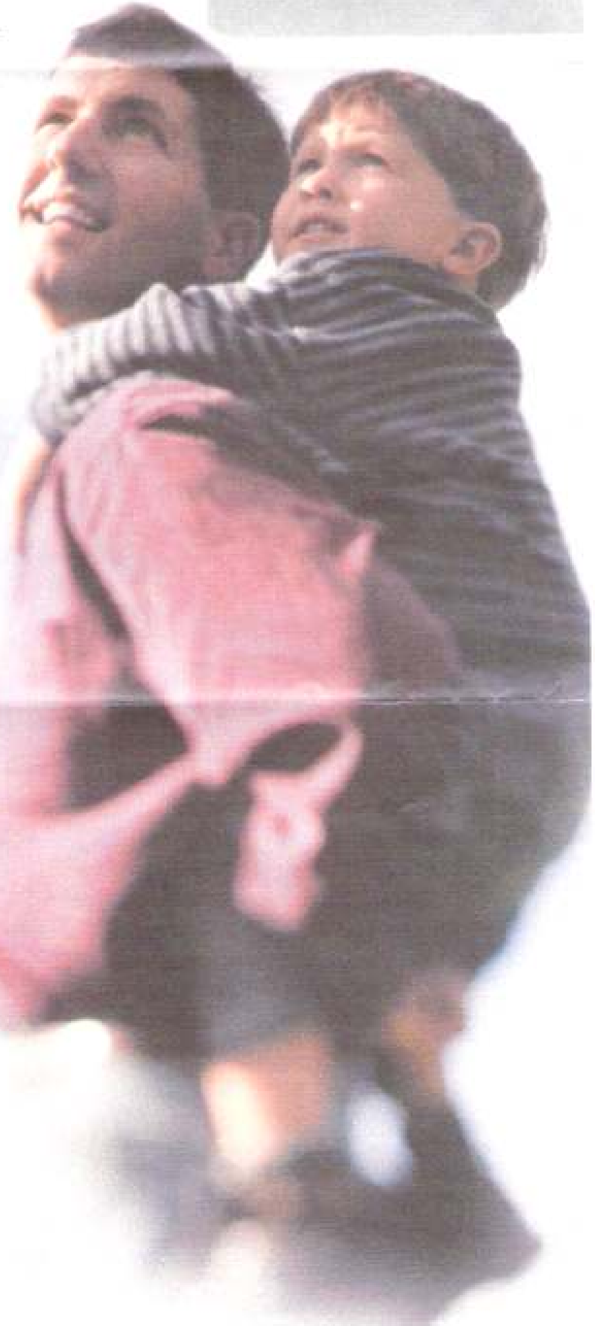
Having a savings strategy, and establishing and maintaining an emergency fund, will keep your IRAs safe for their intended purpose — retirement.

financial facts

$11.9 trillion

the combined assets of the nation's mutual funds as of September 2007.

Source: The Investment Company Institute (www.ici.org, Oct. 31, 2007)



continue to contribute to a Roth IRA as long you want, provided you have earned income. Take note though, everyone is not eligible for a Roth. There are earning limitations that may affect high-income earners. (For more information on eligibility requirements and contribution limits, see *Money Tips*, at left.)

Figuring it all out

If you already have an account, remember to fund your IRA as early in the year as possible to take maximum advantage of tax-deferred or tax-free growth. If you don't, consider starting one now. IRAs are great tools for adding some tax-advantaged investments to your portfolio while building a retirement account. Each has its own advantages and disadvantages that need to be considered carefully.

If you are preparing for retirement and considering an IRA, I'll be glad to help you review your portfolio and your individual situation so you can determine your options. You should also consult your tax advisor before making a decision.

> **"Choose a Traditional IRA if you need that tax deduction right now, or you anticipate paying taxes at a significantly lower rate in retirement. Choose a Roth IRA if you can do without the tax break right now."**
> — *The Motley Fool*

Purchasers of investment products should consider the investment objectives, risks, charges and expenses carefully before investing. Contact your Farmers Insurance and Financial Services Agent for a prospectus or offering statement that contains this and other information. Please read it carefully before purchasing or investing. Investment return will fluctuate so that an owner's shares, when redeemed, may be worth more or less than their original cost. There can be no assurance that investment objectives of any particular investment will be met. Consult your legal or tax advisor as necessary.

Inside this issue

1 ■ Choosing an IRA

2 ■ Make your IRA work harder for you!

3 ■ Create an emergency fund for when 'stuff happens'

4 ■ Is a conversion in your future?

Plus: Money Tips

Should you convert your Traditional IRA to a Roth?

THE ANSWER IS ... IT DEPENDS. Generally, converting an existing Traditional IRA to a Roth IRA makes the most sense if: 1) you are several years from retirement, 2) you expect to be in an equal or higher tax bracket after retirement, and 3) you won't need to withdraw money until after age 59½.

Are you eligible to convert?

If you have an adjusted gross income (AGI) of $100,000 or less, typically you can convert an existing Traditional IRA to a Roth IRA. However, you'll have to pay income taxes on the assets, just as if you had taken a full distribution from your Traditional IRA. Typically, it is to your advantage to pay the taxes out of pocket — rather than using assets from the IRA — because this will provide the potential for more money to continue to grow and compound tax-free inside the IRA. Further, if you are under age 59½, any funds withdrawn from the account to pay taxes will likely be subject to an additional 10 percent federal income tax penalty. Pay the taxes out of pocket and you avoid this penalty. Remember: You must own your Roth IRA for at least five tax years before qualified withdrawals become tax-exempt. This may give you the time for tax-free earnings to build so that you have the opportunity to recover the conversion taxes. Note: Qualified withdrawals may be subject to state or local taxes.

Consider the pros and the cons

A conversion has both advantages and disadvantages that you'll want to consider carefully. You'll want to factor in your financial expectations, investment goals and time frame when deciding whether a conversion may be right for you. If you are thinking about converting, consult with your tax advisor and call me. Together we can explore the options and you can determine which might be suitable for you.

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