Considering the Roth IRA Conversion Opportunity

Roth IRAs offer important benefits, and more taxpayers than ever before are eligible beginning in 2010.

Does Roth Conversion Work for You?

Your financial advisor in conjunction with your tax advisor can perform an analysis to determine if a Roth conversion makes sense for you.

Get a Handle on Your IRA Retirement Savings.

Your IRA retirement savings may be scattered in more than one IRA. Consolidating them can make your retirement investments more efficient, but here's one more reason to consolidate—it can make it easier to decide if a Roth IRA conversion makes sense for you.

By consolidating your IRA retirement investments, you may find it easier to calculate the conversion taxes you'll owe. With this information, you can easily determine if you have enough money in your non-retirement accounts to pay the conversion tax, avoiding paying the taxes from your retirement assets.

If converting makes sense for you, consolidating will let you take full advantage of the conversion opportunity.

Pay Your Conversion Tax from Your Non-IRA Assets.

This way, you won't reduce the funds you'll have at work in your Roth IRA later on: you'll keep more of your IRA money working for you. But pay careful attention to the taxes you'll face when you liquidate non-IRA investments, and the 10% penalty if you pay taxes from your IRA.

As with any important tax or investment decision, consult a financial professional who will consider your specific tax circumstances.

This is not, and you should not consider it to be, legal or tax advice. The tax rules are complicated and their impact on a particular individual may differ depending on the individual's specific circumstances. Please consult with your legal or tax advisor regarding your specific situation.

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Roth IRA

Making the Most of the Roth IRA Conversion Opportunity

- Roth IRAs offer tax-free investment growth and retirement distributions
- Recent legislation has made Roth IRA conversions available to all taxpayers in 2010—regardless of income level
- If you'd like to lower your taxable income during retirement, you may want to consider getting ready to convert

Roth IRAs: Expanded Appeal

Legislative changes have made the advantages of Roth IRA conversions widely available.

Big Changes Are Here, Courtesy of TIPRA

In 2010, TIPRA (the Tax Increase Prevention and Reconciliation Act) opened the benefits of Roth IRAs to all taxpayers—regardless of income level—by removing the limits on who can convert Traditional IRA assets to a Roth IRA.

Prior to 2010, not everyone was eligible to use Roth IRAs. If your adjusted gross income was too high, the Roth IRA was off limits. In 2010, TIPRA has made Roth IRA conversions open to anyone—regardless of income.

For investors with sizable assets and higher incomes, converting their Traditional IRA balances to a Roth IRA could create a significant tax advantage—and including Roth IRAs in a retirement savings strategy along with Traditional IRAs and non-IRA savings can help reduce the impact of future changes to the tax code.

We'll discuss how you can take advantage of what Roth IRAs have to offer, but first let's review how Roth IRAs work.

No Taxes on Investment Growth—or Withdrawals

Roth IRAs allow you to invest your after-tax income, as long as you don't make more than the Internal Revenue Service (IRS) limits. Once you put money in a Roth IRA, you won't face mandatory withdrawals as with a Traditional tax-deferred IRA and you won't pay taxes on it again, even when you withdraw it. Of course, there are a few criteria to satisfy for withdrawals to be qualified. Investors must have held the account for at least five years and meet one of the following conditions: age 59½, first-time home buyer, disability or death.

How Roth IRA Conversions Work

	Prior to 2010	Beginning in 2010
What you can convert	You can convert assets from a Traditional IRA account to a Roth IRA account.	
Income restrictions on converting	You couldn't convert if your modified adjusted gross income was more than $100,000 (for both single and joint filers).	No more income restrictions. Anyone can convert—regardless of income level.

Is a Roth IRA a Good Idea for You?

Thanks to TIPRA, Roth IRAs have become an option for higher-income taxpayers who weren't eligible before.

Some Ways a Roth IRA Can Help You

You should look at the overall impact of converting to a Roth IRA very carefully. Everyone's tax situation is different, but Roth benefits are real and worth considering. Here are a few situations when converting to a Roth IRA might make sense for you:

You made too much to participate in a Roth IRA before the TIPRA changes. Many high-income taxpayers were ineligible to contribute to Roth IRAs, but beginning in 2010, the TIPRA legislation has given many taxpayers access to the unique benefits of Roth IRAs—regardless of their income levels. This is a good time to think about whether Roth IRAs make sense for your retirement investments.

You want to shelter more of your assets from taxation. By converting to a Roth IRA and paying the conversion tax from your other personal assets, you can shift more of your assets into tax-favored status. Let's say you're planning to fund a Roth IRA with $2 million from a Traditional IRA. You'll owe a substantial tax bill, but if you pay it from a taxable account instead of taking it from your IRA, the full $2 million you convert can grow tax-free in the Roth IRA. If you pay the taxes from your Traditional IRA, you'll owe the IRS a 10% penalty on the distribution if you're under 59½ and don't have an exception, plus ordinary income tax.

You're a "tax pessimist." Due to the growing cost of Social Security and Medicare for Baby Boomers, many taxpayers believe tax rates will only increase in the future. Converting to a Roth IRA would allow you to pay taxes now instead of later—your withdrawals in retirement will be exempt from taxes even if future tax rates are higher than today's.

You want to leave some of your wealth behind for your children. Traditional IRAs require that you withdraw a minimum amount once you reach 70½ and pay taxes on it, even if you don't need the money. Roth IRAs don't: if you don't need them, your savings stay invested, tax-free and available to pass on to your children, although your beneficiaries must take minimum distributions after your death.

Important Tax Information About Conversions

Conversion Taxes

When you convert your Traditional IRA to a Roth IRA, you'll have to pay taxes on the amount you convert, but you can convert part of your Traditional IRA, or even make multiple conversions spread out over time. By doing so, you might avoid liquidating your other investments—and possibly realizing taxable gains—to pay the conversion tax.

Partial conversions might also keep you from "creeping" upward into a higher tax bracket for some or all of your conversion taxes.

Even though you'll have to pay taxes on your Roth IRA conversion—maybe even at a higher tax rate—it may provide you and your family with meaningful long-term benefits.

You should also note that if you convert to a Roth IRA and withdraw from it before you reach age 59½ and before you've held it for five years, a 10% IRS penalty will apply. There are some exceptions, such as for first-time home buyers, disability or death.

What Future Tax Laws May Hold

Taxes will always be around, and it's a safe bet that the government will always be tweaking the rules, and it's hard to predict what changes they'll make.

For example, Congress might decide to eliminate the Roth IRA, the Roth IRA conversion or the conversion for high-income taxpayers. It could reduce the tax rate on Traditional IRA withdrawals or reduce the taxation of earnings from dividends, capital gains or interest payments.

Although the government often gives relief to those who invested under the old rules with "grandfather" clauses, tax laws are fluid, so it's important to diversify the tax exposure of your retirement investments the same way you diversify your investments. A balance of Traditional IRAs, Roth IRAs and non-IRA savings can help reduce the impact of future tax-code changes.

Things to Consider with Partial Roth IRA Conversion

- You don't have to convert your entire Traditional IRA to a Roth IRA
- Partial conversions might help you avoid liquidating other investments to pay the tax
- Partial conversions may keep you from "creeping" into a higher tax bracket