

CONVERT YOUR IRA TO A ROTH IRA IN 2010?

New Rules Effective in 2010

Beginning in 2010, any owner of an IRA or certain qualified retirement plans (QRPs) may convert to a Roth IRA without regard to adjusted gross income (AGI). Prior to 2010, only taxpayers with AGI not exceeding \$100,000 (not including the income realized on the conversion and any required minimum distributions) could effect a Roth IRA conversion.

Impact of a Roth IRA Conversion

IRA funds converted to a Roth IRA will be subject to income tax in the year of conversion. However, for conversions in 2010, the taxable income can be spread over two years, with half reported in 2010 and the balance in 2011. Upon conversion to a Roth IRA, all funds including earnings will be tax-free upon distribution, assuming that the distributions are made subsequent to a qualifying five year holding period.

Potential Benefits of a Conversion

Unlike a traditional IRA, distributions to beneficiaries of a Roth IRA are generally tax-free. Roth IRAs also have no minimum distribution requirements for the participant at age 70 ½, allowing for maximum tax-free accumulation. These benefits need to be weighed against the requirement to “pre-pay” the income tax on the IRA upfront on the conversion. If income tax rates rise in the future, paying the tax now

on a smaller accumulation and spreading the taxable income over two years could be advantageous.

The real power of a Roth conversion is when the IRA participant or spouse will never need to access withdrawals from the Roth IRA for living support and the beneficiaries at death are willing and able to “stretch” the required post death distributions over their remaining life expectancies. This allows for maximum tax-free accumulation and tax-free distributions over a period of several decades in many cases. It also works best when the income tax due on the conversion can easily be paid from non-IRA assets.

Recharacterization

The Roth IRA conversion is one of the few planning techniques that gives you a mulligan, if needed. Should you decide later that the conversion doesn't make sense for some or all of the converted amount, you have until the final extension of your income tax return for the year of conversion to recharacterize the conversion and simply “unconvert” the Roth IRA back into a traditional IRA. For 2010 conversions, you have until 10/15/2011 to “undo” the conversion.

Who Should Convert?

See the Roth IRA Conversion Decision Tree on the next page. IRA participants who have the



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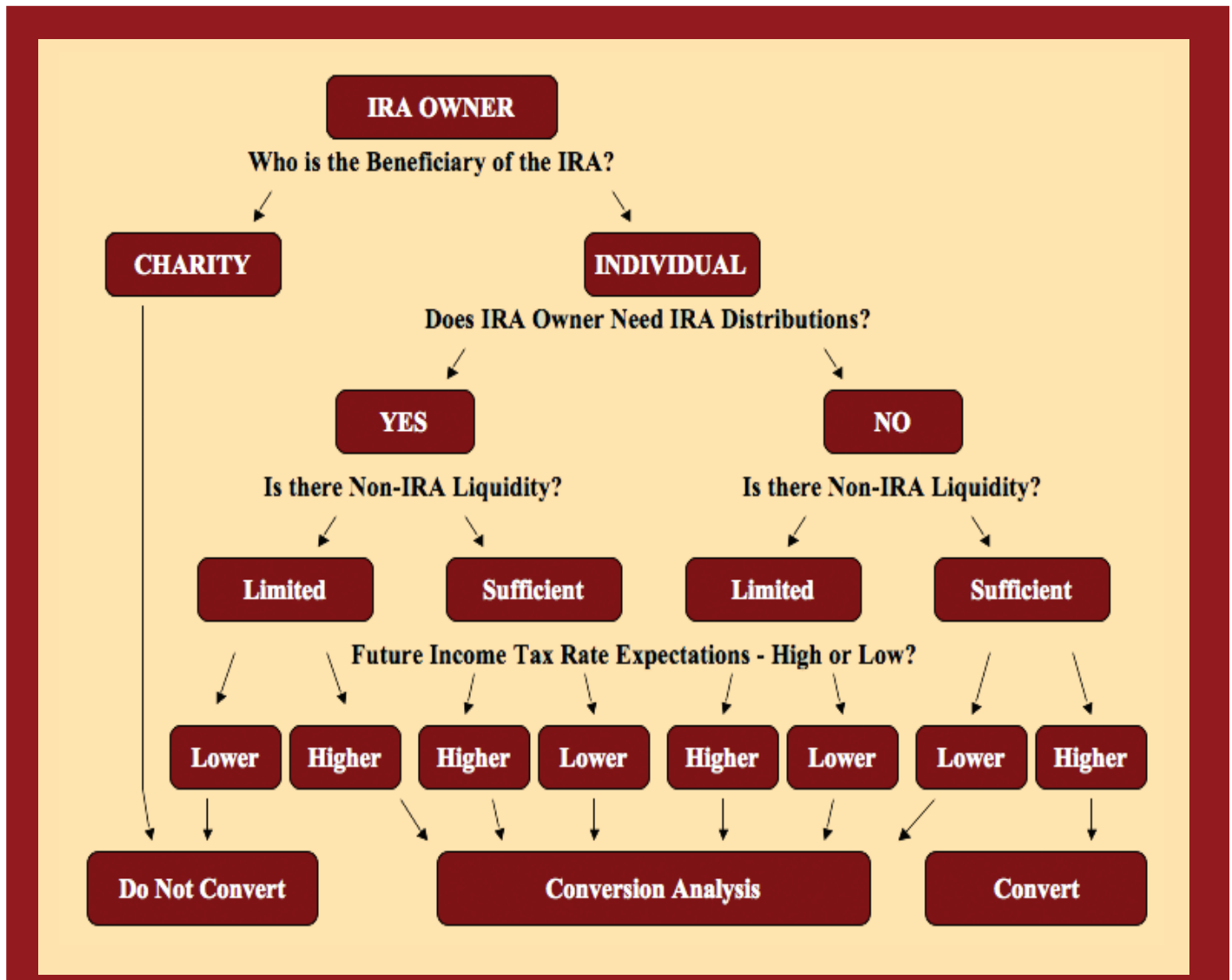
following characteristics are good candidates for a Roth IRA conversion.

- Will not be leaving their IRAs to charity at death;
- Will not need to pay the income tax on conversion from IRA assets;
- Will not need to take distributions from the converted Roth IRA during their lifetimes;
- Have beneficiaries of the Roth IRA at death that will likely “stretch” the Roth IRA distributions over their life expectancies;
- Believe income tax rates will be the same or higher in the future.

There are many cases where some of the above assumptions will not apply or not apply in full. These situations need further analysis to customize a planning strategy for the individual that may or may not involve a conversion.

Please contact us if you have any questions or if we can be of service in tailoring a conversion analysis and strategy that best meets your personal financial situation.

ROTH IRA CONVERSION DECISION TREE



Ideal Characteristics of Roth IRA Conversion Candidate

- Will not be leaving their IRA to charity at death
- Will not need to pay the income tax on conversion from the Roth IRA

- Will not need to take distributions from the converted Roth IRA during their lifetimes to support lifestyle needs
- Have beneficiaries of the Roth IRA at death that will likely “stretch” the Roth IRA distributions over their life expectancies

- Believe income tax rates will likely be at current levels or higher
- Believe that Congress will not negatively impact the beneficial rules of Roth IRAs in the future or eliminate the federal income tax system