



# ROTH IRA CONVERSION OPPORTUNITY

## A VALUABLE PLANNING IDEA FOR YOU AND YOUR FAMILY

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*Save for retirement and watch your money grow tax-free*

**Determine if taking advantage of current tax laws to convert your Traditional IRA to a Roth IRA is right for you.**

### WHAT IS A ROTH IRA?

A Roth IRA is an Individual Retirement Account (IRA) that is both similar to and different from a Traditional IRA. Both, for example, are intended as vehicles for retirement savings, and annual contributions to both are limited to a fixed dollar amount.

Both types of accounts are tax-favored, with investment earnings accumulating without current taxation. However, qualified distributions from a Traditional IRA are subject to income tax, either in whole or in part. In contrast, qualified distributions from a Roth IRA are tax-free. Moreover, with a Traditional IRA, required minimum distributions begin with the year you reach age 70 ½. With a Roth IRA, however, there are no required minimum distributions during your lifetime. Another obvious difference: contributions to a Traditional IRA may be tax-deductible, whereas contributions to a Roth IRA are never tax-deductible.

### ADVANTAGES OF A ROTH IRA

- 100% of growth, distributions and withdrawals can be tax-free (whereas withdrawals from a Traditional IRA are generally taxed as ordinary income).
- There are NO required minimum distributions and NO age limitation on contributions. For these reasons, a Roth IRA is a potential option for people who want to maximize their assets in retirement and perhaps leave more assets to their heirs.
- Qualified distributions from a Roth IRA are not included when determining the taxable portion of Social Security benefits.
- You can convert your existing Traditional IRA, 401(k), profit sharing, 403(b) or 457 plan to a Roth IRA.

### TAX LIABILITY

If you convert or roll over a Traditional IRA to a Roth IRA, you must pay the tax liability at the time of conversion. The size of that liability depends partly on the degree to which your Traditional IRA was funded with after-tax contributions – and partly on your time horizon and income tax bracket.

### SPECIAL OPPORTUNITY IN 2010

- Beginning in 2010, there is NO income limitation to prevent you from converting to a Roth IRA (in 2009, the income limitation is \$100,000 of modified adjusted gross income).
- If you convert to a Roth IRA in 2010, you can spread the resulting taxable income over two tax years (2011 and 2012).

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- You may choose to convert part or all of your Traditional IRA to a Roth IRA.
- Thus, the Roth IRA may be a viable option in 2010 for many high-net-worth individuals, depending on their tax situation.

#### WHY CONVERT TO A ROTH IRA?

- Not having to take minimum distributions at age 70 ½ gives you greater flexibility. You can put off withdrawing funds until you need them or leave more of the balance to your beneficiaries.
- As long as you have earned income, you can continue contributing to a Roth IRA after age 70 ½.
- When you pay the tax liability from converting to a Roth IRA, these funds are removed from your taxable estate, thus potentially reducing your estate tax liability.
- Depending on your tax situation, you may be able to reduce your tax liability from converting to a Roth IRA with available deductions, such as excess charitable deduction carryforwards or net operating losses from a business.

#### CRITICAL FACTORS WHEN CONSIDERING A ROTH IRA CONVERSION

- Will you need cash flow from your IRA to meet your retirement needs, or can you afford to let your IRA account continue to grow tax-free?
  - The larger your converted IRA becomes, the greater the benefits of conversion.
- Is your tax rate going to be higher in the future when you make withdrawals from your tradition IRA?
  - Higher future income tax rates would increase the projected benefits of conversion.
- Do you have outside funds (from non-qualified retirement accounts) to pay the income tax liability from conversion to a Roth IRA?
  - Paying taxes with non-IRA assets should increase the projected benefits of conversion.

#### KNOW YOUR OPTIONS

Converting to a Roth IRA could prove to be a valuable planning idea for you and your family. For an analysis of whether converting to a Roth IRA makes sense for your situation, speak with your tax advisor or a Northern Trust professional.

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