

Roth IRA Conversion Opportunity

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New Roth IRA rules may mean big tax savings for some high-income earners.

Thanks to the Tax Increase Prevention and Reconciliation Act of 2005, the advantages of Roth IRA conversions will be accessible to taxpayers whose adjusted gross income is in excess of \$100,000. On January 1, 2010, all taxpayers, regardless of income level will be eligible to convert Traditional IRAs to Roth IRAs.

Roth IRA assets will grow and be distributed tax free as long as distributions are not taken within five years of the conversion, and not before age 59 ½.

Depending on your financial and estate planning goals, Roth IRA conversions may provide a valuable opportunity to reduce future tax liabilities.

Does it make sense to convert your Traditional IRA accounts to a Roth IRA?

A number of factors influence the decision to convert to a Roth IRA.

- Can you pay the tax liability on the conversion out of current income?
- When will you want to access the funds?
- What is your current tax bracket?
- What will your tax bracket be during your retirement?

Is this the right time to convert to a Roth IRA?

This could be the perfect time to convert the funds in Traditional IRA accounts, because the value of those accounts may have declined as a result of the financial turmoil and depressed economy over the last 18 months. If the value of the retirement fund is reduced, so is the tax liability incurred by converting to a Roth IRA. In this situation, the investor locks in the taxes due at the lower amount and protects any potential appreciation and earnings from additional taxes.

What are the tax costs associated with Roth conversions?

Converting a Traditional IRA account to a Roth IRA involves recognizing all previous tax-deductible contributions and earnings as ordinary income for the year in which the account is converted. However, for 2010 only, taxpayers can elect to defer half of their tax liability to 2011 and half to 2012. Future earnings on the Roth account and complying distributions from it do not incur a tax liability.

What are the advantages of converting funds to Roth IRAs now?

The advantages of converting to Roth IRA accounts may vary based on personal finances and individual investment goals. However, some of the advantages may include:

- **Hedging Income Tax Rates.** For the past 50 years there have been only five years when the top marginal tax rate was less than the current 35% rate. Paying taxes now may be beneficial while rates are low and while the taxable value of the retirement account is down, as opposed to the possibility of paying taxes at a higher rate at a time when values have recovered.
- **Tax Diversification.** Other than municipal bonds very few investments grow tax-exempt. The Roth IRA is the exception. There are benefits to having a tax-free Roth account to draw from in retirement including how it can be utilized to maximize social security benefits.
- **Cash Flow Management.** For investors in retirement receiving income from a variety of sources, access to a Roth IRA's tax-free distributions may provide the flexibility to maintain a more favorable tax bracket.

What happens if the Roth IRA loses value after the conversion?

Surprisingly you can ask the IRS for a "do over". A retirement account converted to a Roth can be recharacterized back into a Traditional IRA with no tax consequences up to the filing deadline plus extensions.

What will work best for you?

Like all prudent investment decisions, Roth IRA conversions should be discussed with experienced financial professionals, knowledgeable with the intricacies of this unique planning opportunity. Not everyone will receive the same tax advantages from the Roth IRA conversion.

The professionals at McLaughlin Ryder Investments can assist you in answering any questions you may have pertaining to Roth conversions and the ability to protect and grow your savings. We would be happy to prepare a customized complimentary Roth conversion analysis to help you with your planning. Please call us at 703-684-9222 or request a call from one of our advisors via the Contact Us page on our website at www.mclaughlinryder.com.

Note: See below for excerpts from the 7 page report that we prepare for our clients

Sample Roth IRA Conversion Analysis Report

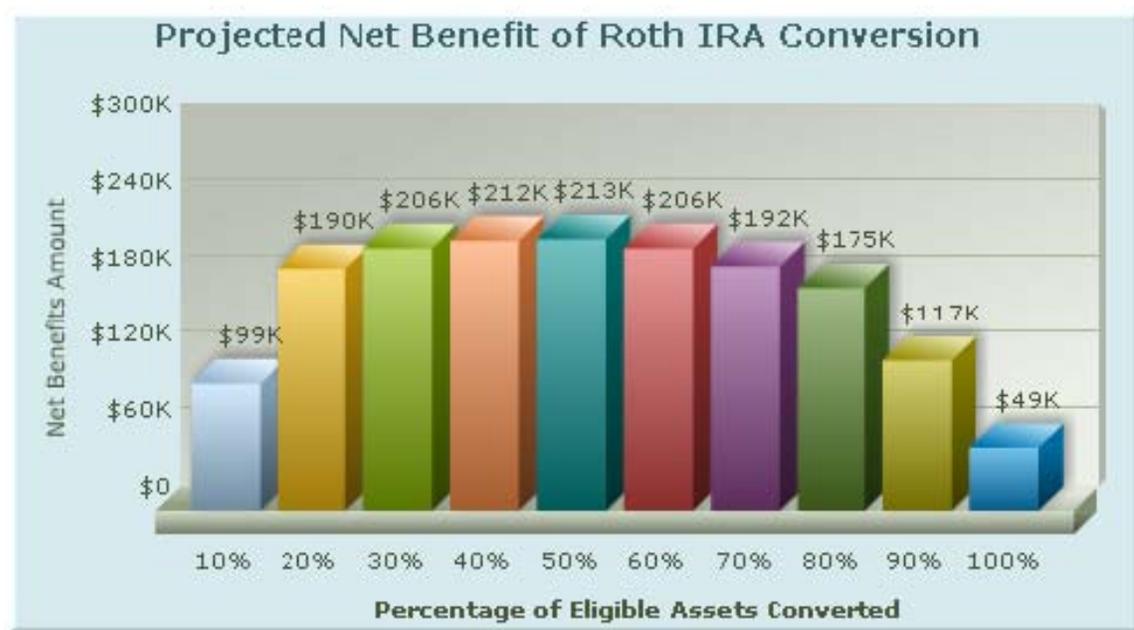
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Section I: Report Overview

This report summarizes the results of a Roth IRA conversion analysis conducted by our firm based on information you provided to us. The purpose of this analysis is to assist you in gaining a better understanding of the impact which either a full or partial Roth IRA conversion could potentially have on your retirement and your financial legacy. The results summarized within this report are intended to provide you with an introductory framework for exploring what, if any, level of Roth IRA conversion might be appropriate for you based on your overall circumstances.



Following a preliminary analysis in which we reviewed 10 unique conversion scenarios ranging from a conversion of 10% of your available IRA assets to a conversion of 100% of your available IRA assets, it appears a partial conversion of approximately 50% of your available IRA balance might yield the best results for your situation based on the information you provided to us as well as the various assumptions factored into the analysis.

Based on these preliminary projections, the report findings summarized within this analysis report focus on three primary Roth IRA conversion scenarios:

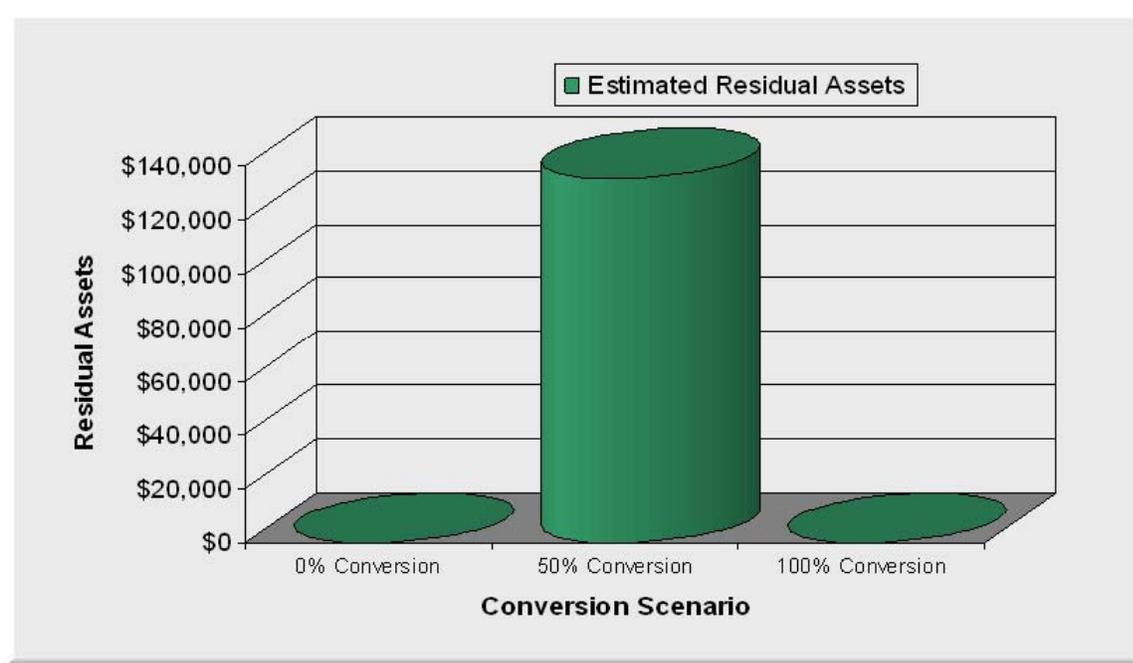
Scenario #1: 0% Conversion (Projected cost of conversion: \$0)

Scenario #2: 50% Conversion (Projected cost of conversion: \$38,350)

Scenario #3: 100% Conversion (Projected cost of conversion: \$80,831)

Residual Asset Estimates

This subsection of the report summarizes the projected residual assets remaining at the end of your 2nd generation beneficiary's life expectancy.



Projected Residual Assets as of 2068:

@ 0% Conversion: \$0

@ X% Conversion: \$135,660

@ 100% Conversion: \$0