

Eligibility restrictions for Roth IRA Conversions are changing in 2010. Should you convert?

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With the ability to pay taxes on contributions at your current rate and to avoid taxes on the growth of your assets, a Roth IRA can be an incredibly useful retirement savings vehicle. Thanks to a recent legislative change that will take effect January 1, 2010, investors at every income level – including more affluent individuals who weren't previously eligible – will be able to convert a traditional IRA to a Roth IRA. This is a potentially valuable retirement planning strategy that is important for individuals to evaluate now.

What You Should Know:

1. The advantages of a Roth IRA

A Roth IRA is funded with after-tax dollars, so there is no immediate tax benefit. However, the money you contribute grows tax-free, and you won't have to pay income tax when you withdraw it, as long as it's been invested more than five years and you are over age 59½. In addition, the money you convert to a Roth will avoid the required minimum distribution rules that apply to traditional IRAs when you turn 70½, so your money can continue to compound tax-free until you're ready to withdraw it or pass it along to your heirs.

You can even withdraw up to \$10,000 and apply it to a first-time home purchase without any tax liability. If the Roth was

funded via conversion, five years must pass before taking advantage of this exception.

2. Income restrictions are going away

Traditionally, individuals or joint filers needed a modified adjusted gross income (MAGI) of less than \$100,000 to qualify for a Roth conversion. But the law scheduled to go into effect January 1, 2010 will lift those restrictions, enabling higher-income investors to convert. ▶

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- Income limits will remain in effect for *new contributions* to Roth IRAs.
- Congress may decide to reinstate the old income limits or impose new ones at any time.
- Maximize your traditional IRA contributions for 2008 and 2009 before April 15 of the following year and before you make the conversion to a Roth in 2010.
- Income and tax liability for a conversion made in 2010 can be spread out equally, in a one-time allowance, over 2011 and 2012.

3. Should I convert sooner?

If you believe your tax rate is currently lower than it will be when you retire, there may be a significant advantage to paying taxes on your IRA assets now. Some tax rates are already set to increase in 2011. So, if you have the funds on hand **and** are below the \$100,000 MAGI threshold for 2009, you may want to convert your IRA to a Roth in 2009.

- If you earn over \$100,000, you may be able to reduce your income by increasing 401(k) contributions at work.

4. Strategies you can pursue now

If your income is over the \$100,000 MAGI threshold, there are steps you can take in 2009 to increase the benefits of a Roth conversion in 2010.

What Should You Do Now:

The rules surrounding Roth conversions change frequently and every investor's situation is unique. We recommend contacting your Financial Advisor or Tax Professional now to make sure you've covered your bases and understand all your options regarding this opportunity. ■