


Don and Barb Barringer

ROTH CONVERSION
January 14, 2010

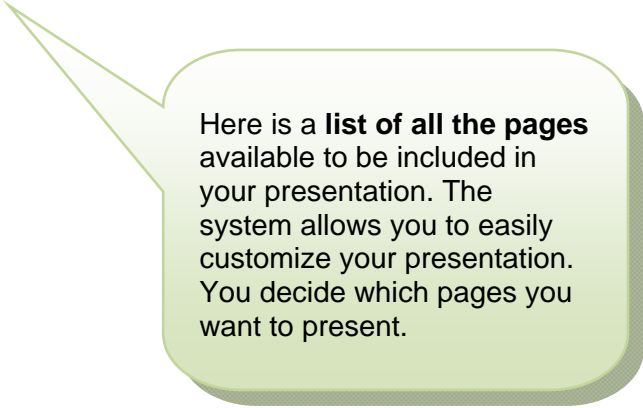


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Basics of Roth IRA Conversion

Things to Consider . . .

A conversion is a penalty-free taxable transfer of amounts from a traditional IRA to a Roth IRA. You can convert part or all of the money in your regular IRA to a Roth IRA. When you convert your traditional IRA to a Roth IRA, you will pay income tax on the amount converted. Before 2010 a taxpayer is only eligible to convert a Traditional IRA to a Roth IRA, if he or she has a modified adjusted gross income (MAGI) that doesn't exceed \$100,000.

Additionally, the taxpayer cannot file a married filing separately return. The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) created an opportunity for many taxpayers; this opportunity is the ability to convert a tax deferred Traditional IRA into a tax-free* Roth IRA starting in 2010 regardless of income. Also, filing status restrictions are also lifted, allowing married taxpayers filing a separate return to convert a Traditional IRA to a Roth IRA.

In addition to a Traditional IRA, you may be able to convert the following into a Roth IRA:

- Qualified plan distribution
- 403(b) plan distribution
- Simple IRA
- SEP IRA

The (TIPRA) legislation also creates a window of opportunity to take advantage of taxes on the conversion. Before 2010, assets converted to a Roth IRA were subject to federal income tax in the year of conversion. Penalty taxes may also apply if you do not have the money to pay taxes. The new rule will allow investors who convert in 2010 to defer the recognition of income equally in 2011 and 2012.

Provide your clients with a quick update on the new tax laws governing conversions into a **Roth IRA** and the significant **benefits of converting in 2010**.

Another interesting option is a re-characterization which allows someone to "un-do" a Roth conversion. It essentially makes the situation the same as if a conversion never took place; no taxes are due and the account is still treated as a Traditional IRA. There are rules and time-limits regarding re-characterization and an advisor should be consulted.

* Restrictions, penalties and taxes may apply. Unless certain criteria is met, Roth IRA owners must be 59 ½ or older and have held the IRA for 5 years before tax-free withdrawals are permitted.

Reasons to Convert to a Roth IRA

Roth IRA Benefits

Roth IRAs offer a unique and exciting retirement savings opportunity.

With a Roth IRA:

- **Contributions are allowed at any age**
- **Qualified distributions are tax-free**
- **No Required Minimum Distributions (RMD)**

Review the many benefits of a Roth IRA and **discuss** why a Roth Conversion maybe the right choice for your client.

The benefits of a Roth conversion are significant and worth considering, but may not apply to all investors. Here are a few reasons a Roth conversion may be right for you.

Looking to diversify your tax exposure? By converting to a Roth IRA, and paying any conversion tax from other personal assets, you are shifting more of your assets into tax-favored status.

Was your income too high to participate in a Roth IRA before the TIPRA changes? Many higher income taxpayers are currently ineligible to contribute to Roth IRA's. The TIPRA legislation gives many of these same individuals access to the unique benefits of a Roth IRA starting in 2010.

Do you think taxes will rise in the future? Many taxpayers believe tax rates will only go up in the future. Converting to a Roth IRA, will allow you to pay taxes now, and your withdrawals in retirement would be exempt from taxes, even if income tax rates were to rise in the future.

Do you want to maximize the wealth transfer to your children? Roth IRAs may be a more attractive vehicle than a Traditional IRA. Traditional IRAs require you to take a minimum withdrawal (and pay tax on it) from the IRA once you reach the age of 70 ½, even if you don't need the money. Roth IRAs do not have these required withdrawals, allowing you to keep these savings invested tax-free and available to pass to your children, although your beneficiaries must take minimum distributions after your death. Your heirs will also receive tax-free withdrawals from the inherited Roth IRA compared to an inherited Traditional IRA.

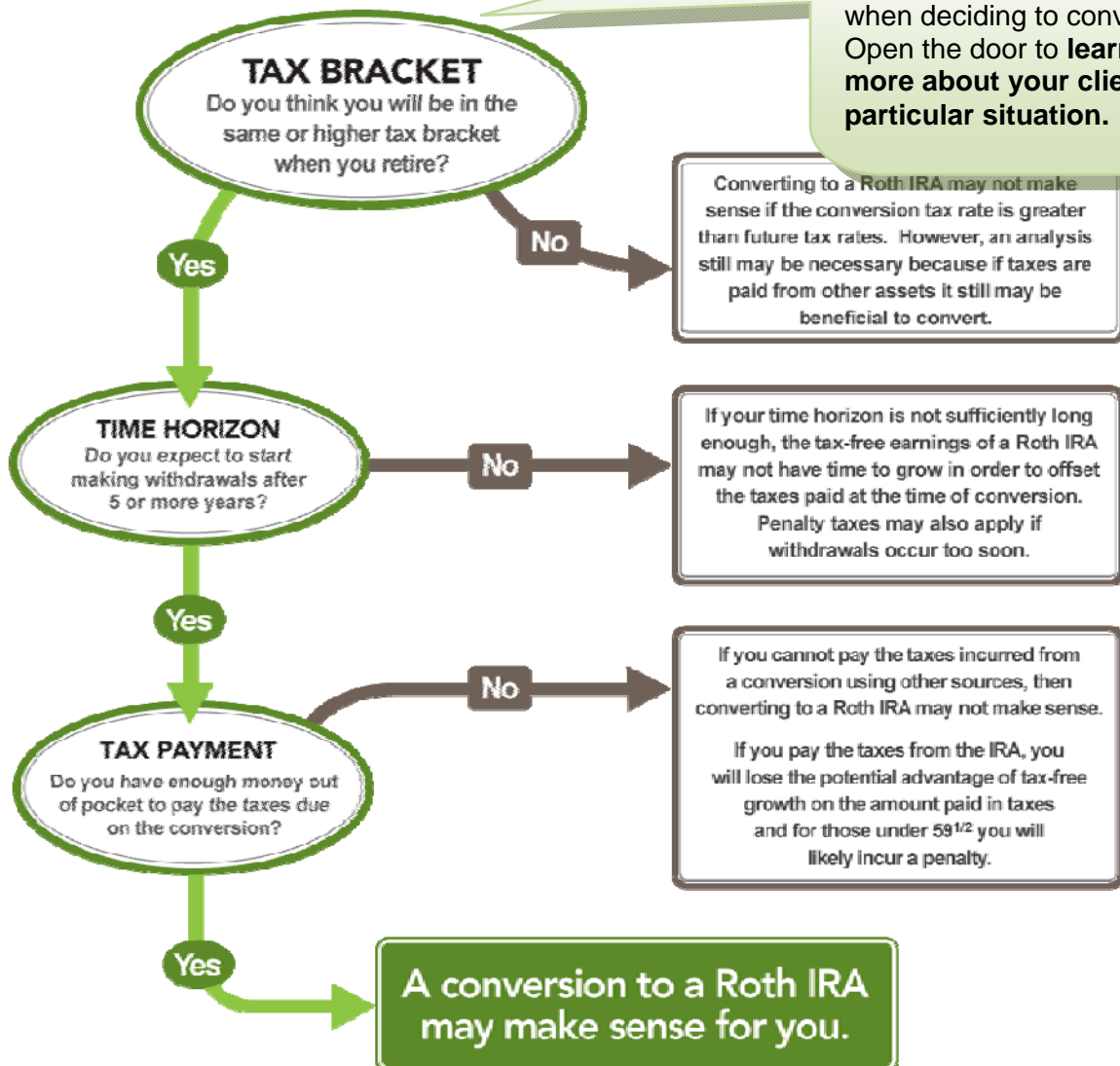
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Roth Conversion Decision Tree

Convert Traditional IRA to Roth IRA

Use the decision tree to determine whether or not converting your traditional IRA to a Roth IRA may be right for you.

Walk your clients through the key points to consider when deciding to convert. Open the door to **learn more about your client's particular situation.**



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Assumptions and Results

Easily **customize your presentation** by entering assumptions regarding your client's current situation. In the system, a recalculate button exists for you to easily illustrate different scenarios.

The following assumptions will be used to determine the potential benefit of converting a Traditional IRA to a Roth IRA.

Date of Birth: 1/1/1960	Growth Rate: 8.00%
Retirement Age: 65	Inflation / Present Value Rate: 3.52%
Withdrawals Start At Age: 71	Pre-Retirement Tax Rate: 25.0%
Value of IRA(s): \$500,000	Post-Retirement Tax Rate: 25.0%
Amount that is Non-Taxable: \$0	Pay Taxes from Outside Funds?: Yes
Percent Taxable at Conversion: 100.0%	Use 2010 Tax Deferral?: Yes
Amount To Convert: \$500,000	

Amounts accumulated at age 71

		No Conversion (Traditional IRA)	Roth Conversion (Taxes from Outside Funds)
	Before Tax	\$3,060,630	\$2,718,271
	After Tax	\$2,426,969	\$2,718,271

Estimated annual income that could be generated

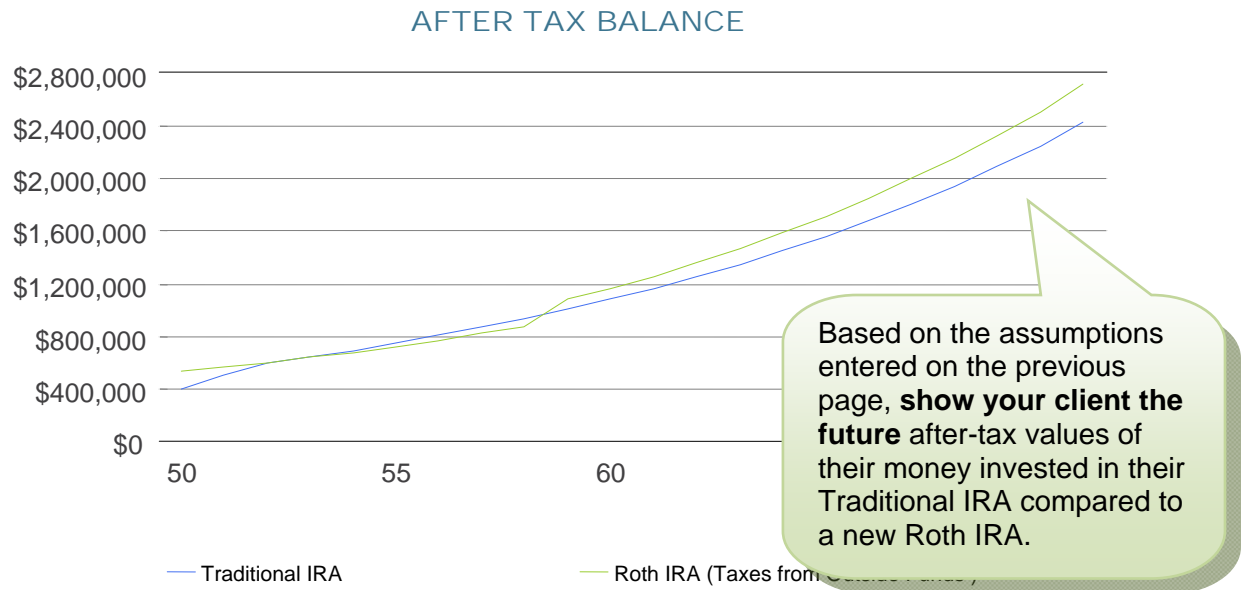
		No Conversion (Traditional IRA)	Roth Conversion (Taxes from Outside Funds)
Income for 10 Years at age 71	Before Tax	\$456,124	\$405,103
	After Tax	\$361,690	\$405,103
	Today's Dollars	\$168,967	\$189,248
Income for 30 Years at age 71	Before Tax	\$271,868	\$241,457
	After Tax	\$215,581	\$241,457
	Today's Dollars	\$100,711	\$112,799

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IRA Values Summary

Future Value Comparison

The graph below compares the future after tax value of a Traditional IRA versus a Roth IRA through age 71.



	IRA Value After Conversion	Total at Retirement (After Tax*)	Total at Start of Withdrawals (After Tax*)
No Conversion (Traditional IRA)	\$500,000	\$1,559,340†	\$2,426,969†
Roth Conversion (Taxes from Outside Funds)	\$500,000	\$1,712,972	\$2,718,271

* The potential for 10% early withdrawal penalties is not taken into account within the above calculations. Please consult your financial planner or tax advisor about any potential tax ramifications of taking withdrawals too early.

† Includes additional taxable funds to compensate for the money that was not lost to taxes under the No Conversion scenario. The taxable funds also includes deposits of any after-tax required minimum distributions when applicable. The growth on this account is taxed each year.

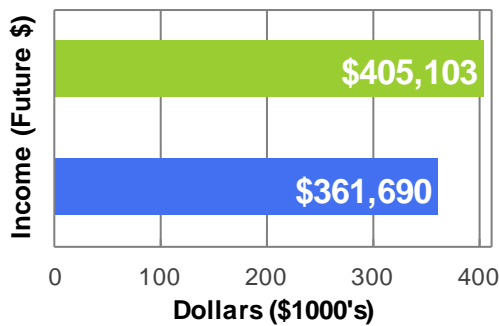
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IRA Income - Future Dollars

↻ Level Income Comparison

Income is effectively generated from an IRA by making regular withdrawals over a period of time. The charts below show the estimated after tax income that can be generated starting at age 71. IRA balances not withdrawn in a given year are projected to grow at **8.00%**, and withdrawals from the Traditional IRA are subject to an annual tax rate of **25.0%**.

INCOME FOR 10 YEARS



- Conversion - Taxes from Outside Funds
- Traditional IRA

Income is assumed to be level for all years, and is shown in future dollars. Below are the projected account values at age 71.

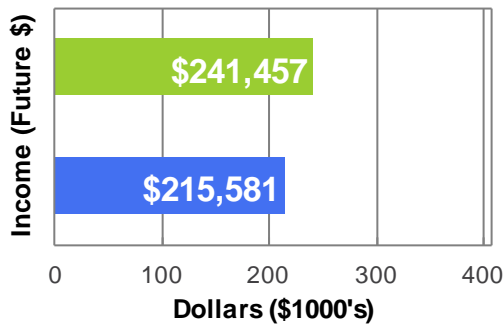
No Conversion
(Traditional IRA)

\$3,060,630
Pre-tax, generates taxable withdrawals

Roth Conversion
(Taxes from Outside Funds)

\$2,718,271
Tax-free, generates tax-free withdrawals

INCOME FOR 30 YEARS



- Conversion - Taxes from Outside Funds
- Traditional IRA

Easily show the difference in income that can be generated from your client's Traditional IRA vs. a new Roth IRA in future dollars.

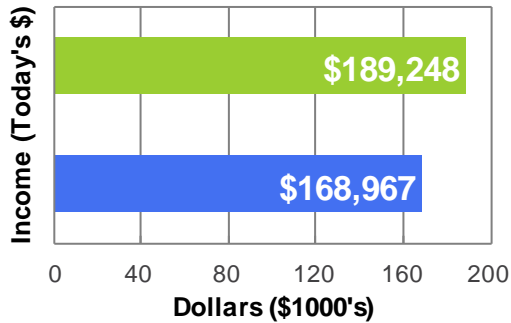
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IRA Income - Today's Dollars

↻ Level Income Comparison

Income is effectively generated from an IRA by making regular withdrawals over a period of time. The charts below show the estimated after tax income that can be generated starting at age 71. IRA balances not withdrawn in a given year are projected to grow at **8.00%**, and withdrawals from the Traditional IRA are subject to an annual tax rate of **25.0%**. Calculation of today's dollars assumes a **3.52%** inflation rate.

INCOME FOR 10 YEARS



- Conversion - Taxes from Outside Funds
- Traditional IRA

Income is assumed to be level for all years, and is shown in today's dollars. Below are the projected account values at age 71.

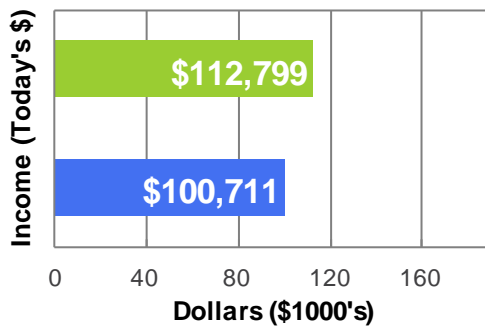
No Conversion
(Traditional IRA)

\$1,429,806
Pre-tax, generates taxable withdrawals

Roth Conversion
(Taxes from Outside Funds)

\$1,269,869
Tax-free, generates tax-free withdrawals

INCOME FOR 30 YEARS



- Conversion - Taxes from Outside Funds
- Traditional IRA

Easily **show the difference in income** that can be generated from the client's Traditional IRA vs. a new Roth IRA in **today's dollars**.

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Conversion Details

The following shows the yearly values for a Traditional IRA and the outside funds needed to pay taxes at conversion, versus a Roth conversion where those outside funds are used to pay the conversion taxes.

		Traditional IRA							Roth Conversion		
Year	Age	BOY IRA		RMD	EOY IRA		Side Fund	Total	BOY Roth		EOY Roth
		Balance	Growth		Balance	Contribs†			Balance	Growth	Balance
2010	50	\$500,000	\$40,000	\$0	\$540,000	\$0	\$0	\$540,000	\$500,000	\$40,000	\$540,000
2011	51	\$540,000	\$43,200	\$0	\$583,200	\$62,500	\$62,500	\$645,700	\$540,000	\$43,200	\$583,200
2012	52	\$583,200	\$46,656	\$0	\$629,856	\$66,750	\$128,750	\$758,606	\$583,200	\$46,656	\$629,856
2013	53	\$629,856	\$50,388	\$0	\$680,244	\$71,000	\$136,475	\$816,719	\$629,856	\$50,388	\$680,244
2014	54	\$680,244	\$54,420	\$0	\$734,664	\$75,500	\$144,663	\$879,327	\$680,244	\$54,420	\$734,664
2015	55	\$734,664	\$58,773	\$0	\$793,437	\$80,000	\$153,343	\$946,780	\$734,664	\$58,773	\$793,437
2016	56	\$793,437	\$63,475	\$0	\$856,912	\$84,500	\$162,543	\$1,019,455	\$793,437	\$63,475	\$856,912
2017	57	\$856,912	\$68,553	\$0	\$925,465	\$89,000	\$172,295	\$1,097,760	\$856,912	\$68,553	\$925,465
2018	58	\$925,465	\$74,037	\$0	\$999,502	\$93,500	\$182,633	\$1,182,135	\$925,465	\$74,037	\$999,502
2019	59	\$999,502	\$79,960	\$0	\$1,079,462	\$98,000	\$193,591	\$1,273,053	\$999,502	\$79,960	\$1,079,462
2020	60	\$1,079,462	\$86,357	\$0	\$1,165,819	\$102,500	\$205,206	\$1,371,025	\$1,079,462	\$86,357	\$1,165,819
2021	61	\$1,165,819	\$93,266	\$0	\$1,259,085	\$107,000	\$217,518	\$1,476,603	\$1,165,819	\$93,266	\$1,259,085
2022	62	\$1,259,085	\$100,727	\$0	\$1,359,812	\$111,500	\$230,569	\$1,590,381	\$1,259,085	\$100,727	\$1,359,812
2023	63	\$1,359,812	\$108,785	\$0	\$1,468,597	\$116,000	\$244,403	\$1,713,000	\$1,359,812	\$108,785	\$1,468,597
2024	64	\$1,468,597	\$117,488	\$0	\$1,586,085	\$120,500	\$259,067	\$1,845,152	\$1,468,597	\$117,488	\$1,586,085
2025	65	\$1,586,085	\$126,887	\$0	\$1,712,972	\$125,000	\$274,611	\$1,987,583	\$1,586,085	\$126,887	\$1,712,972
2026	66	\$1,712,972	\$137,038	\$0	\$1,850,010	\$129,500	\$291,088	\$2,141,098	\$1,712,972	\$137,038	\$1,850,010
2027	67	\$1,850,010	\$148,001	\$0	\$1,998,011	\$134,000	\$308,553	\$2,306,564	\$1,850,010	\$148,001	\$1,998,011
2028	68	\$1,998,011	\$159,841	\$0	\$2,157,852	\$138,500	\$327,066	\$2,484,918	\$1,998,011	\$159,841	\$2,157,852
2029	69	\$2,157,852	\$172,628	\$0	\$2,330,480	\$143,000	\$346,690	\$2,677,170	\$2,157,852	\$172,628	\$2,330,480
2030	70	\$2,330,480	\$186,438	\$85,054	\$2,431,864	\$147,500	\$431,282	\$2,863,146	\$2,330,480	\$186,438	\$2,516,918
2031	71	\$2,431,864	\$194,549	\$91,768	\$2,534,645	\$152,000	\$525,985	\$3,060,630	\$2,516,918	\$201,353	\$2,718,271
After Tax*					\$1,900,984		\$525,985	\$2,426,969			\$2,718,271

Provide your client with a year by year comparative snapshot of the growth of their Traditional IRA, using side funds to cover future taxes, compared to a new Roth IRA and paying the taxes at conversion.

* The after-tax value of the account(s) if fully liquidated in the last year.

† Includes additional taxable funds to compensate for the money that was not lost to taxes under the No Conversion scenario. The taxable funds also includes deposits of any after-tax required minimum distributions when applicable. The growth on this account is taxed each year.

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