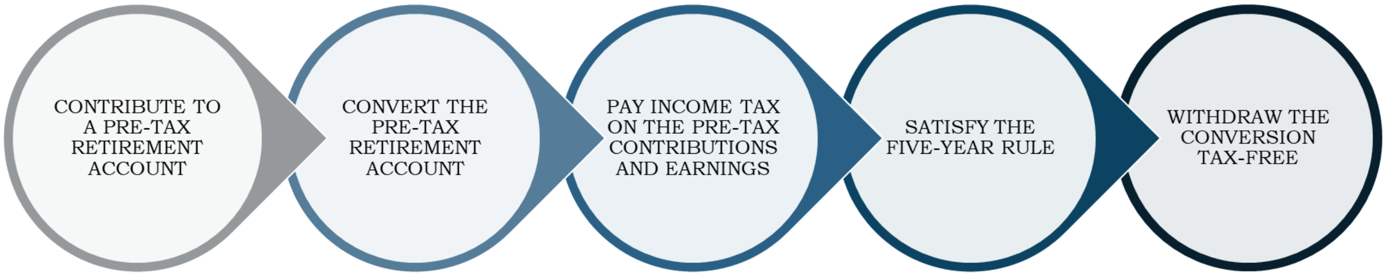
ROTH CONVERSION GUIDE

Introduced in 1997 under the Taxpayer Relief Act, taxpayers were given the ability to make after-tax contributions to a Roth IRA and convert existing pre-tax traditional IRA assets to a Roth. In 2006, tax law surrounding Roth IRAs expanded to allow conversions from pre-tax qualified retirement plans. Finally in 2010, income limits prohibiting taxpayers from performing conversions were removed, allowing all taxpayers to participate in conversions. There is a five step process to completing a conversion:



1. CONTRIBUTE:

Contributions can be made to a pre-tax employer sponsored retirement plan (401(k), 403(b), 457, etc…) or to an Individual Retirement Account (IRA) up to the elective deferral limit or contribution limit. The balance of the account can be comprised of deductible or non-deductible contributions, or a combination of both. Any non-deductible contributions will increase the basis of the account.

2. CONVERT:

Conversions can either be made to a Roth IRA or within the employer-sponsored retirement plan via intra-plan Roth conversions. The entire account may be converted or a portion of the account. If only a portion of the account is converted and the account is comprised of both deductible and non-deductible contributions, the basis of the conversion will be calculated on a pro-rata basis.

3. PAY INCOME TAX:

Income tax will be owed on the converted amount less the accounts basis in the year of the conversion. Income taxes can either be paid from the assets being converted (decreasing the Roth balance) or from outside accounts (keeping the converted amount intact). If the tax is paid from the Roth balance, taxpayers will face a penalty if under the age of 59 ½.

4. SATISFY FIVE-YEAR RULE:

Five years, beginning in January of the year when the conversion is made, must have passed until taxpayers may withdrawal converted amounts without penalty. Each conversion has its own five-year window. Therefore, multiple conversion will open up multiple five-year windows (Roth conversion ladder).

5. WITHDRAWAL:

Withdrawals from Roth IRAs are deemed to come first from contributions, then conversions, and finally earnings. Conversions are treated as first-in first-out (FIFO), allowing taxpayers to start making withdrawals from their converted amounts once their first five-year window is complete.

WHEN DOES A CONVERSION MAKE SENSE?

There are a number of variables that aid taxpayers in the decision of whether to perform Roth conversions or not: tax rates, time horizon, and the amount of qualified assets. Since income tax is owed on the amount of the conversion, it's ideal to perform conversions when tax rates are low. Because converted amounts cannot be withdrawn within five years without penalty, the taxpayers time horizon should be greater than five years. Lastly, if the amount of qualified assets is becoming too large, Roth conversions could effectively decrease the tax burden of future required minimum distributions (RMDs).

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