

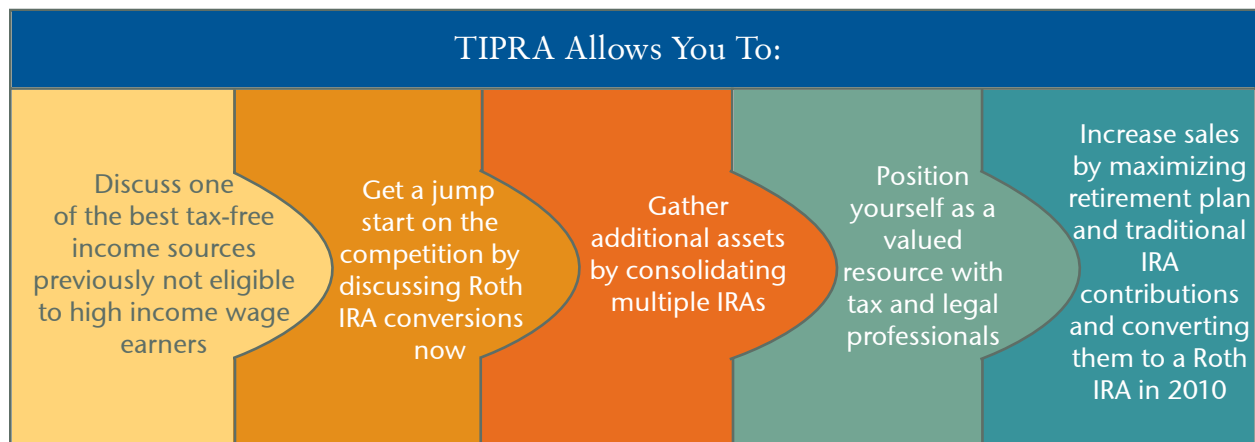
Principal Trust Company<sup>SM</sup>

## Roth Conversion Rules in 2010

### Understanding Roth IRA 2010 Conversions

The Tax Increase Prevention and Reconciliation Act (TIPRA) created an opportunity in 2010 for individuals who do not currently qualify for the Roth IRA because their Modified Adjusted Growth Income (MAGI) is above the current limit (\$100,000). In that year, the Act will open the Roth IRA to conversions of retirement savings without regard to MAGI; making this type of IRA even more accessible by allowing account holders the option of spreading their tax payments on the earnings over the following two years.

Your clients that have previously been excluded from the Roth IRA will welcome this unprecedented opportunity. Over the next few years, your assistance with preparing for and then acting upon this tax law change will be invaluable.



### Your Target Market

Individuals whose income exceeds \$100,000 MAGI.

Younger clients with long investment horizons who can potentially have their money grow tax free.

Retirees who could convert to a Roth IRA for Heirs to receive tax-free distributions.

Individuals and pre-retirees who would benefit from tax-free withdrawals as part of their retirement distribution strategy.

Retirees seeking alternative tax-free income sources other than municipal bonds.

## Roth Conversion Action Plan

<b>1</b> Review clients' and prospects' current retirement accounts to gather assets and target funds for a Roth IRA conversion in 2010	<b>2</b> Help clients determine individual conversion strategies to maximize their Traditional, Rollover, SEP or SIMPLE IRA contributions along with other employer sponsored plan contributions through 2009, in preparation for conversion in 2010.	<b>3</b> Create an investment strategy to cover tax obligations in 2011 and 2012. It is beneficial to avoid using IRA assets to pay taxes on the conversion as this minimizes the benefits of converting.	<b>4</b> Review clients and prospects assets to see if pro-rata rule applies (or the amount of all after-tax IRA contributions divided by the total value of all the individual IRA, including federally tax deductible contributory IRAs, Rollover IRAs, SEPs & SIMPLEs).	<b>5</b> Consult with your client's accountants, tax professionals, and attorneys to estimate tax obligations associated with the projected conversion.
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### Roth 2010 Reminders

**The pro-rata rule applies** - When determining the tax on conversions, the IRS uses the pro-rata rule. Specifically, divide the amount of all after-tax IRA contributions (recorded on IRS Form 8606) by the total value of all the individual IRAs, including federally tax deductible contributory IRAs, rollover IRAs, SEPs, and SIMPLEs. This number is then multiplied by the dollar amount to be converted, regardless of which account it comes from. The resulting amount represents the portion of the conversion that will not be taxed. Clients cannot simply convert the nondeductible contributions and pay no income tax.

**Roth IRA income limits have not changed** - However, income limits are adjusted for inflation under provisions of the Pension Protection Act.

**Roth IRA distribution rules have not changed** - A Roth IRA owner can withdraw their contributions at any time. However, distributions considered to be conversion amounts could be subject to a 10% early withdrawal penalty if the investor has taken withdrawals within five years of conversion. Nonqualified distributions of earnings will be subject to income tax and, if applicable, the 10% early withdrawal penalty.

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