Great outcomes. Done well.

For higher-income investors, a new opportunity to convert retirement savings to a Roth IRA is right around the corner. Is this the right move for you?

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The law restricting higher-income investors from converting their Traditional IRAs to Roth IRAs will be removed in January. This means that, for the first time, individuals or joint filers making more than $100,000 per year can take advantage of the benefits of a Roth IRA, including the ability to pay taxes on balances at their current tax rates versus potentially higher rates later and no minimum distribution requirements. Also, a special provision will let investors spread out the tax impact of a 2010 conversion over 2011 and 2012. But before you rush to convert your retirement savings to a Roth, you need to determine if it's the right strategy for you.

The longer you can leave money in a Roth IRA after conversion, the more effective the strategy will be.

What You Should Know:

1. **A Roth conversion isn't for everyone.**

A Roth IRA can be an incredibly useful savings tool for the right investors, but the ultimate value of the Roth conversion strategy depends largely on when you plan to use the money in the account. In general, the longer you can leave money in a Roth IRA after conversion, the more effective the strategy will be. If you convert your IRA in one year and then start withdrawals shortly afterwards, the assets won't have grown enough to offset the upfront income tax. Paying taxes up front only makes sense if the Roth can grow long enough, on a tax-free basis, to compensate. Because of this, there are two groups that typically benefit the most from a Roth conversion:

- Those who don't plan to ever use the assets in the IRA because they have enough other retirement assets (taxable savings, Social Security, pensions, etc.) to support their lifestyles. For this group, a Roth conversion is like making a gift to their heirs equal to the taxes on the account.
- Younger individuals who can't access the account for many years. In order for Roth IRA withdrawals to be tax-free, the earnings have to be in the account for at least five years. In addition, the owner must be at least age 59½, or meet one of

several other requirements (such as death or disability). These restrictions make Roth IRAs better suited as a long-term savings tool.

2. **Think about your future**

   If you expect to be subject to a higher tax rate in retirement than you are today, a Roth conversion may be appropriate. Even though a Roth conversion requires you to pay taxes today that could have been deferred, it could ultimately end up costing you less if you expect to be in a higher tax bracket in the future.

3. **Timing is everything.**

   While a Roth conversion is often a better idea for younger investors with higher future earning potential than it might be for more established professionals nearing retirement age, Roth IRA owners are not forced to take Required Minimum Distributions (RMD) at age 70½. This feature can be quite appealing to older high-net-worth investors, especially for those who wouldn't withdraw from their IRAs if not for RMD rules. The owner's heirs will be required to take minimum distributions, just like they would from a Traditional IRA, but those withdrawals will be tax-free.

4. **It doesn't have to be all or nothing.**

   Even if an in-depth evaluation of your current financial situation and long-term goals indicates a Roth conversion might make sense for you today, there are factors playing out in real time that could change the bigger picture in the near future. For instance, it's very possible that taxes will increase for those in the highest bracket after 2010. And, if the federal deficit continues to increase as it has recently, the need to raise taxes more aggressively in the future may well become more urgent. For these and other reasons, you may want to diversify your retirement assets across tax-deferred and tax-free investment vehicles. You aren't required to convert your entire Traditional IRA to a Roth IRA. Any amount you do convert should create a manageable tax liability today and should consist of assets you won't need to access for a number of years, but the rest can stay put.

What Should You Do Now:

Converting your retirement savings to a Roth IRA could be a very beneficial or unexpectedly costly decision if made hastily. It's important to carefully consider the implications of a Roth conversion in the context of your complete financial picture and comprehensive long-term plans. Beware of most do-it-yourself, online Roth IRA conversion calculators. These often make standard assumptions about goals and time horizons, which can actually vary widely for different individuals. We strongly recommend that you get help from a Financial Advisor who truly understands and accounts for the intricacies of your unique situation in a comprehensive financial plan that looks at your future using either a Traditional or a Roth IRA, or both. ■