



Roth IRA Conversions Present Significant Planning Opportunities in 2010 and Beyond

PRACTICE AREAS

Estate Planning

January 1, 2010

Beginning in 2010, there are no income restrictions to convert a Traditional IRA and/or an employer-sponsored retirement plan, such as a 401(k), to a Roth IRA. As a result, many individuals who weren't previously eligible to convert their Traditional IRA or 401(k) to a Roth may now be able to benefit from the tax advantages of a Roth IRA. A Roth IRA has the potential to grow tax deferred and produce tax-free income in retirement for the retiree or his heirs.

Converting to a Roth account has two significant benefits. First, distributions from a Roth account will generally be free of federal income tax as long as the account has been in existence at least five years and the retiree is at least 59 1/2 years old when distributions are made. For converted amounts, withdrawals are subject to penalty if funds are withdrawn within five years of the conversion.

Second, the Roth IRA is a powerful estate planning tool. The retiree can accumulate funds in the account for his or her heirs tax-free. Heirs who inherit a Roth account are subject to required minimum distribution rules, but because they are likely to be significantly younger than the retiree, more of the balance in the Roth can grow tax-free. Additionally, the heirs will not owe any federal income tax on the funds they withdraw. This can result in significant intergenerational tax savings.

The decision whether to convert to a Roth account should be based on individual circumstances. One drawback to converting is the amount converted will be subject to current taxation, although this tax can be deferred to 2011 and 2012 for conversions that occur in 2010. In light of federal income tax increases that are expected to take effect in the coming years,

| 2 | Roth IRA Conversions Present Significant Planning Opportunities in 2010 and Beyond

such as increases in the marginal tax rates and the 3.8% surtax on investment income, 2010 may be the most advantageous year to pursue the Roth IRA conversion opportunity.