

# SHOULD I CONVERT TO A ROTH IRA?

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## INTRODUCTION

If your income is \$100,000 or less and you are single or married, filing jointly, you may be eligible to convert your traditional IRAs to a Roth IRA in order to take advantage of federally tax-free earnings in the future.

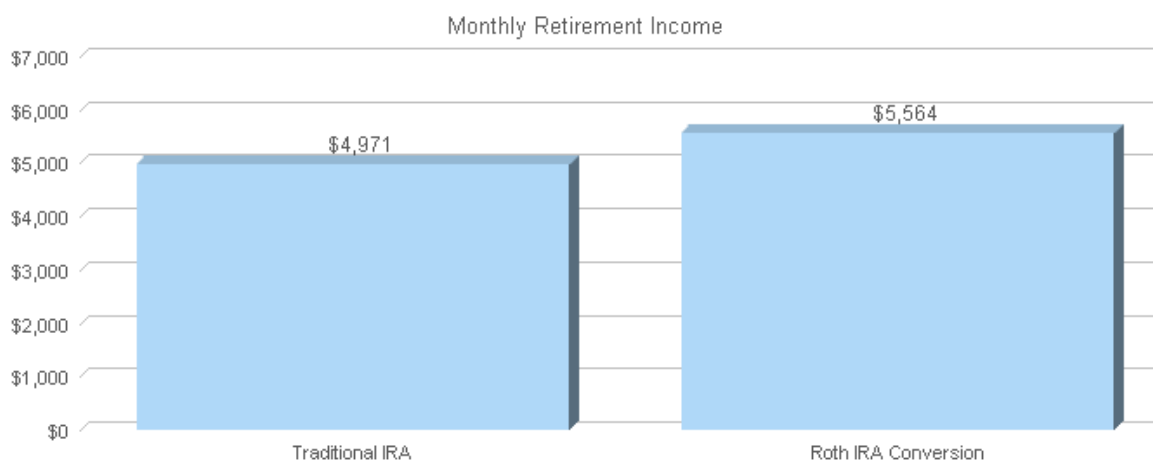
You will generally pay ordinary federal income tax (but not the 10% penalty tax) on the taxable amount that is converted. Your tax-free potential is maximized if you pay the taxes from your current income or personal savings, not your IRA.

Please note that beginning in 2010 the \$100,000 adjusted gross income limit for conversions to Roth IRAs is permanently repealed. From 2010 onward, all taxpayers, regardless of income, can convert to Roth IRAs. Also, for conversions occurring in 2010, the taxpayer will only have to report one-half of taxable income in 2011 and one-half in 2012. After 2010, conversions must be reported in full in the taxable year in which they are made.

## ANALYSIS

Based on the assumptions you provided, your current traditional IRA account might generate a monthly income of \$4,971, converting your Traditional IRA to a Roth IRA you might generate a monthly income of \$5,564.

IRA Conversion Analysis		
Conversion Phase	Traditional IRA	Roth IRA
Current IRA balance: (deductible)	\$1,000,000	n/a
Current IRA Balance: (non-deductible)	\$0	n/a
Side account	\$0	n/a
Roth conversion amount: (before-taxes)	n/a	\$1,000,000
Taxes and fees paid at conversion	n/a	\$250,000
Adjusted beginning comparison balance	\$1,000,000	\$750,000
Accumulation Phase	Traditional IRA	Roth IRA
Estimated IRA balance: (deductible)	\$1,539,456	n/a
Estimated IRA balance: (non-deductible)	\$0	n/a
Estimated side account	\$0	n/a
Estimated Roth IRA balance	n/a	\$1,154,592
Estimated value at retirement: (before-taxes)	\$1,539,456	\$1,154,592
Distribution Phase	Traditional IRA	Roth IRA
Yearly income: (deductible)	\$59,648	n/a
Yearly income: (non-deductible)	\$0	n/a
Side account income	\$0	n/a
Roth IRA income	n/a	\$66,770
Annual after-tax income	\$59,648	\$66,770
Monthly after-tax income	\$4,971	\$5,564



## SUMMARY OF INPUT

Current age	56
Age when income should start	67
Number of years to receive income	30
Before-tax return on savings: (% - accumulation phase)	4.00%
Before-tax return on savings: (% - distribution phase)	4.00%
Income tax bracket: (% - accumulation phase)	25.00%
Income tax bracket: (% - distribution phase)	33.00%
Current IRA balance	\$1,000,000
Non-Deductible portion of IRA balance	\$0
How will you pay the conversion tax?	Option 2