

# ARE YOU A GOOD CANDIDATE FOR A ROTH IRA CONVERSION?

Beginning in 2010, anyone, regardless of income-tax filing status or earnings is eligible to convert a traditional IRA or an employer-sponsored plan (so long as the plan is eligible for distributions) to a Roth IRA. This change makes it easier for people with higher incomes to take advantage of potential tax and investment benefits of Roth accounts. SEP and SIMPLE IRAs may also be converted. Even if you are eligible to convert assets to a Roth IRA, that doesn't necessarily mean that you should. This checklist can help you to evaluate whether converting to a Roth IRA makes sense for you. For more information on the topic of Roth conversions, see our article in the Individuals & Families section of [www.janney.com](http://www.janney.com).

Questions to Consider	Yes	No
<p><b>1. <i>When converting to a Roth IRA, you must pay the conversion taxes upfront. Do you have access to sufficient funds outside of your IRA to pay these taxes?</i></b></p> <p>If you are under age 59½ and take money from your IRA to pay the tax bill for your Roth conversion, you will be required to pay taxes on those dollars and you may incur a 10% penalty. In addition, any amounts removed from your IRA to pay taxes will lose the opportunity for tax-free growth. That's why it may be better to use money held outside of your IRA to pay taxes owed on a Roth Conversion.</p>		
<p><b>2. <i>Do you have 10 years or more before you will need to access the funds in your Roth IRA?</i></b></p> <p>Because you are required to pay the taxes on your Roth conversion up front, the longer you can wait to take distributions from your Roth IRA, the more likely you'll be able to recoup the money that you paid in taxes. If you expect to need the money sooner rather than later, it may be beneficial not to convert.</p>		
<p><b>3. <i>Have your retirement savings declined in value due to market conditions?</i></b></p> <p>Because the amount of taxes you will owe will be based on the amount of assets converted to the Roth account, it may make sense to convert when your asset values are below previous levels to minimize your tax bill. If you reasonably expect the assets you convert to increase in value, or experience growth in future years, they would experience tax-free growth in a Roth account.</p>		
<p><b>4. <i>Do you have accurate records of all the after-tax (non-deductible) IRA contributions that you have previously made?</i></b></p> <p>Non-deductible contributions made to your IRA are not taxed when converted to a Roth. However, you must pay special attention to IRAs that contain both taxable and non-taxable assets. In this case, any converted amounts are considered "pro-rata", containing a portion of both taxable and non-taxable dollars. You cannot convert only your non-taxable assets or move your taxable and non-taxable money into separate IRAs to avoid paying taxes on a pro-rata basis. Taxable and non-taxable amounts must be aggregated when calculating the taxes due on the conversion. Please consult with your tax advisor to assist you in determining the pro-rata taxable and non-taxable dollars in your IRAs.</p>		

Questions to Consider	Yes	No
<p><b>5. Can you incur the additional taxable income resulting from the conversion without losing important tax benefits?</b></p> <p>The additional income resulting from your Roth conversion may push you into a higher tax bracket, disqualifying you from other tax benefits which may include college tuition tax credits, social security benefits, dependent child credits, and others. Alternative Minimum Tax (AMT) calculations may also be a factor.</p>		
<p><b>6. Do you expect to be in a higher tax bracket once you start making withdrawals from your Roth IRA?</b></p> <p>Roth accounts can act as a hedge against higher future tax rates. If you expect your income and/or marginal tax rate will be higher in the future, converting now to a Roth IRA may result in future tax savings.</p>		
<p><b>7. Do you want to eliminate annual Required Minimum Distributions (RMDs)?</b></p> <p>Roth IRAs are not subject to RMDs allowing for continued tax-free growth for the primary IRA owner's lifetime. Your beneficiaries also would gain tax-free access to this portion of their inheritance, though RMDs will apply to them.</p>		
<p><b>8. Do tax-deferred accounts such as IRA Rollovers and 401(k)s, make up the majority of your retirement savings?</b></p> <p>A Roth conversion offers a source of tax-free income during retirement. This allows you to balance tax-free withdrawals from your Roth IRA with other income sources to help manage taxes during retirement.</p>		
<p><b>9. Can your heirs benefit from a reduction in eventual taxes owed on your estate?</b></p> <p>On estates large enough to be subject to Federal estate taxes, converting to a Roth IRA can reduce the size of your taxable estate by virtue of the tax payments owed upon conversion.</p>		

Once you complete this checklist, count how many “yes” and “no” answers you have. If you answered “yes” more times than “no,” you may be a good candidate for a Roth conversion. Because of the complexities involved in making a decision to convert your assets, it is essential to talk with your tax advisor for more information regarding your own situation. Some key items which you may wish to consider include: your present and future tax rate assumptions, both for tax rates generally and for your personal effective rates during retirement; the potential need for you to make quarterly estimated tax payments, even if you are not already making quarterly estimates; the timing of tax

payments upon a 2010 conversion (recognizing all conversion income in 2010 tax year, versus half recognition in each of 2011 and 2012 income) and the potential tax impact on your social security benefits in future years.

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