John and Katie Winters

360 WEALTH MANAGEMENT - ROTH CONVERSION
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Client(s): ______________________________ ____________

John Winters Date

______________________________ ____________

Katie Winters Date

Advisor: ______________________________ ____________

William Wilkinson, CFP ChFC, CLU, CASL, AIF Date

Basics of Roth IRA Conversion

Things to Consider . . .

A conversion is a penalty-free taxable transfer of amounts from a traditional IRA to a Roth IRA. You can convert part or all of the money in your regular IRA to a Roth IRA. When you convert your traditional IRA to a Roth IRA, you will pay income tax on the taxable amount converted[1]. Before 2010 a taxpayer was only eligible to convert a Traditional IRA to a Roth IRA, if he or she had a modified adjusted gross income (MAGI) that did not exceed $100,000. Additionally, the taxpayer could not file a married filing separately return. The Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA) created an opportunity for many taxpayers; this opportunity is the ability to convert a tax deferred Traditional IRA into a tax-free[2] Roth IRA starting in 2010 regardless of income. Filing status restrictions are also lifted, allowing married taxpayers filing a separate return to convert a Traditional IRA to a Roth IRA.

In addition to a Traditional IRA, you may be able to convert the following into a Roth IRA:

- **Qualified Plan**
- **403(b) Plan**
- **Section 457 Plan**
- **Simple IRA**
- **SEP IRA**

Funds converted to a Roth IRA are subject to federal income tax in the year of conversion. Penalty taxes may also apply if using IRA money to pay taxes.

Another interesting option is a re-characterization which allows someone to "un-do" a Roth conversion. It essentially makes the situation the same as if a conversion never took place; no taxes are due and the account is still treated as a Traditional IRA. There are rules and time-limits regarding re-characterization and a tax advisor should be consulted.

1 The taxable amount generally consists of pre-tax contributions and tax deferred gains. Depending on the IRA(s) being converted, the taxable amount may be based on any untaxed gains in other accounts and not solely on the account(s) being converted. An advisor should be consulted before conversion to verify your expected taxable amount.

2 For a withdrawal to be an income tax-free qualified distribution, it must occur after the Roth IRA owner’s 5-tax-year holding period and satisfy one of the other requirements (e.g., withdrawal taken on or after the owner reaches age 59 ½ or the owner's death). The Roth IRA owner’s 5-tax-year holding period begins with the first tax year for which a regular contribution (or, if earlier, in which a conversion contribution) is made to any Roth IRA of which the taxpayer is the owner. Each conversion before age 59 1/2 creates its own 5-year period for purposes of applying the 10% penalty tax on premature distributions from the Roth IRA.

Reasons to Convert to a Roth IRA

Roth IRA Benefits

Roth IRAs offer a unique and exciting retirement savings opportunity.

With a Roth IRA:

- **Regular contributions are allowed at any age[1]**
- **Qualified distributions are income tax-free[2]**
- **No Required Minimum Distributions (RMD) during the Roth IRA owner's life**

The benefits of a Roth conversion are significant and worth considering, but may not apply to all investors. Here are a few reasons a Roth conversion may be right for you.

Looking to diversify your tax exposure? By converting to a Roth IRA, and paying any conversion tax from other personal assets, you are shifting more of your assets into tax-favored status.

Was your income too high to participate in a Roth IRA before the TIPRA changes? Many higher income taxpayers are ineligible to contribute to Roth IRA's. The TIPRA legislation gives many of these same individuals access to the unique benefits of a Roth IRA starting in 2010 by removing the MAGI limits on conversions. However, the MAGI limits on regular contributions remain.

Do you think taxes will rise in the future? Many taxpayers believe tax rates will only go up in the future. Converting to a Roth IRA, will allow you to pay taxes now, and your qualified withdrawals in retirement would be exempt from income taxes, even if income tax rates were to rise in the future.

Do you want to maximize the wealth transfer to your children? Roth IRAs may be a more attractive vehicle than a Traditional IRA. Traditional IRAs require you to start taking a minimum withdrawal for each year (and pay tax on it) from the IRA once you reach the age of 70 ½, even if you don't need the money. Roth IRAs do not have these required withdrawals, allowing you to keep these savings invested tax-deferred and available to pass to your children, although your beneficiaries must take minimum distributions after your death. Your heirs will also receive qualified withdrawals tax-free from the inherited Roth IRA compared to an inherited Traditional IRA.

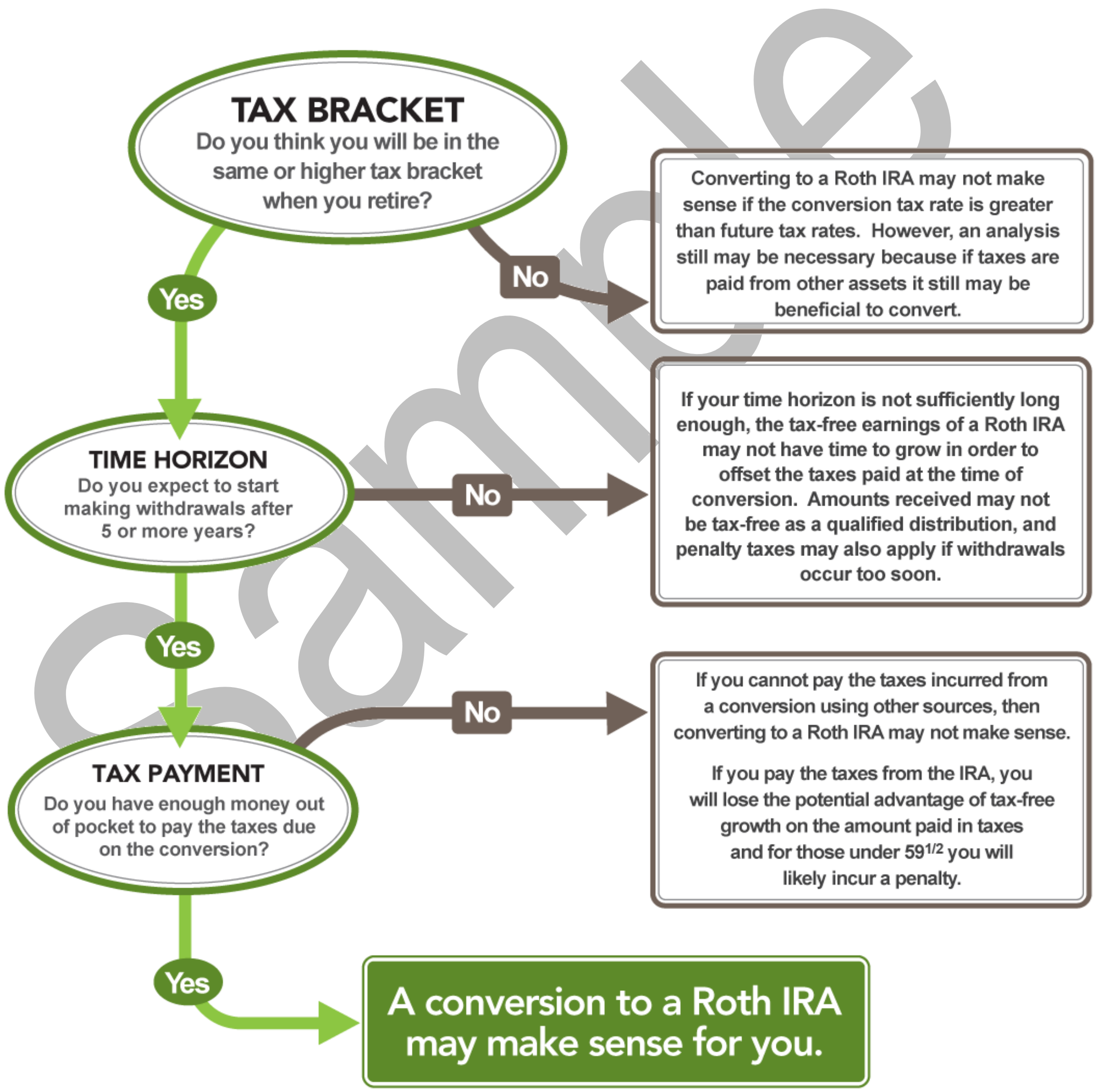
1 Regular Roth IRA contributions are still subject to certain MAGI limits even though the MAGI limits on Roth IRA conversion contributions are being eliminated starting in 2010.

2 For a withdrawal to be an income tax-free qualified distribution, it must occur after the Roth IRA owner's 5-tax-year holding period and satisfy one of the other requirements (e.g., withdrawal taken on or after the owner reaches age 59 ½ or the owner's death). The Roth IRA owner's 5-tax-year holding period begins with the first tax year for which a regular contribution (or, if earlier, in which a conversion contribution) is made to any Roth IRA of which the taxpayer is the owner. Each conversion before age 59 1/2 creates its own 5-year period for purposes of applying the 10% penalty tax on premature distributions from the Roth IRA.

Roth Conversion Decision Tree

Convert Traditional IRA to Roth IRA

Use the decision tree to determine whether or not converting your traditional IRA to a Roth IRA may be right for you.



Assumptions and Results

The following assumptions will be used to determine the potential benefit of converting a Traditional IRA to a Roth IRA.

Date of Birth:	1/1/1958	Growth Rate:	5.00%
Retirement Age:	65	Inflation / Present Value Rate:	3.74%
Withdrawals Start At Age:	65	Pre-Retirement Tax Rate*:	25.0%
Value of IRA(s):	$0	Post-Retirement Tax Rate:	25.0%
Amount that is Non-Taxable:	$0	Pay Taxes from Outside Funds?:	Yes
Percent Taxable at Conversion:	0.0%		

Amount To Convert: $0

Amounts accumulated at age 65

		No Conversion † (Traditional IRA)	Roth Conversion (Taxes from Outside Funds)
	Before Tax	$0	$0
	After Tax	$0	$0

Estimated annual income that could be generated (income amount assumes the liquidation of the IRA over the term of the stated period)

		No Conversion † (Traditional IRA)	Roth Conversion (Taxes from Outside Funds)
Income for 10 Years at age 65	Before Tax	$0	$0
	After Tax	$0	$0
	Today's Dollars	$0	$0
Income for 30 Years at age 65	Before Tax	$0	$0
	After Tax	$0	$0
	Today's Dollars	$0	$0

Tax rate during year(s) you are recognizing Roth conversion income may be higher.

State income tax treatment of your Roth IRA conversion and subsequent distributions from your Roth IRA may vary depending upon your state of residence.

† Includes additional taxable funds to compensate for the money that was not lost to taxes under the No Conversion scenario. If over age 70 1/2, the side fund assumes deposits of the remainder of any required minimum distributions after taxes have been paid. The growth on this account is taxed each year.

IRA Values Summary

Future Value Comparison

The graph below compares the future after tax value of a Traditional IRA versus a Roth IRA through age **65**.

AFTER TAX BALANCE

No Data Available

	IRA Value After Conversion	Total at Retirement (After Tax)	Total at Start of Withdrawals (After Tax)
No Conversion (Traditional IRA)	$0	$0†	$0†
Roth Conversion (Taxes from Outside Funds)	$0	$0	$0

† Includes additional taxable funds to compensate for the money that was not lost to taxes under the No Conversion scenario. If over age 70 1/2, the side fund assumes deposits of the remainder of any required minimum distributions after taxes have been paid. The growth on this account is taxed each year.

IRA Income - Future Dollars

Level Income Comparison

Income is effectively generated from an IRA by making regular withdrawals over a period of time. The charts below show the estimated after tax income that can be generated starting at age **65**. IRA balances not withdrawn in a given year are projected to grow at **5.00%**, and withdrawals from the Traditional IRA are subject to an annual tax rate of **25.0%**.

INCOME FOR 10 YEARS

Income is assumed to be level for all years, and is shown in future dollars. Below are the projected account values at age 65.

No Conversion
(Traditional IRA)

$0
Pre-tax, generates taxable withdrawals

Roth Conversion
(Taxes from Outside Funds)

$0
Tax-free, generates tax-free withdrawals

INCOME FOR 30 YEARS

IRA Income - Today's Dollars

Level Income Comparison

Income is effectively generated from an IRA by making regular withdrawals over a period of time. The charts below show the estimated after tax income that can be generated starting at age **65**. IRA balances not withdrawn in a given year are projected to grow at **5.00%**, and withdrawals from the Traditional IRA are subject to an annual tax rate of **25.0%**. Calculation of today's dollars assumes a **3.74%** inflation rate.

INCOME FOR 10 YEARS

Income is assumed to be level for all years, and is shown in today's dollars. Below are the projected age 65 account values expressed in today's dollars.

No Conversion
(Traditional IRA)

$0
Pre-tax, generates taxable withdrawals

Roth Conversion
(Taxes from Outside Funds)

$0
Tax-free, generates tax-free withdrawals

INCOME FOR 30 YEARS

Conversion Details

The following shows the yearly values for a Traditional IRA and the outside funds needed to pay taxes at conversion, versus a Roth conversion where those outside funds are used to pay the conversion taxes.

		Traditional IRA				Roth Conversion		
Year	**Age**	**BOY^ IRA Balance**	**Growth**	**EOY^ IRA Balance**	**Total**	**BOY^ Roth Balance**	**Growth**	**EOY^ Roth Balance**
2012	54	$0	$0	$0	$0	$0	$0	$0
2013	55	$0	$0	$0	$0	$0	$0	$0
2014	56	$0	$0	$0	$0	$0	$0	$0
2015	57	$0	$0	$0	$0	$0	$0	$0
2016	58	$0	$0	$0	$0	$0	$0	$0
2017	59	$0	$0	$0	$0	$0	$0	$0
2018	60	$0	$0	$0	$0	$0	$0	$0
2019	61	$0	$0	$0	$0	$0	$0	$0
2020	62	$0	$0	$0	$0	$0	$0	$0
2021	63	$0	$0	$0	$0	$0	$0	$0
2022	64	$0	$0	$0	$0	$0	$0	$0
2023	65	$0	$0	$0	$0	$0	$0	$0
After Tax*				**$0**	**$0**			**$0**

^ BOY is “Beginning of Year;” EOY is “End of Year”

* The after-tax value of the account(s) if fully liquidated in the last year.

† Includes additional taxable funds to compensate for the money that was not lost to taxes under the No Conversion scenario. If over age 70 1/2, the side fund assumes deposits of the remainder of any required minimum distributions after taxes have been paid. The growth on this account is taxed each year.