COMMAND :: A GUIDE TO ROTH INDIVIDUAL RETIREMENT ACCOUNT (IRA) CONVERSIONS

COMMAND AND INVESTOR INDIVIDUAL RETIREMENT ACCOUNTS

If you have not taken advantage of the 2010 Roth conversion rule changes, now may be the time to consider it. Due to the Tax Increase Prevention and Reconciliation Act of 2005 ("TIPRA"), previously ineligible individuals have the opportunity to convert their Traditional IRA(s) to a Roth IRA.

An individual's eligibility to perform a Roth IRA conversion is no longer dependent upon his or her modified adjusted gross income (MAGI) and federal income tax filing status. All clients are eligible to convert to a Roth IRA.

SHOULD YOU CONVERT?

There are a variety of factors that determine whether an IRA conversion to the Roth IRA makes sense. Although a tax advisor should always be consulted prior to determining whether or not a Roth Conversion is the right strategy for you, below are some items you may want to consider:

ADVANTAGES

- **Tax-Free Growth**—A Roth IRA offers the ability to grow assets income tax free. Using non-retirement plan funds to pay the income tax related to a conversion means the full value of the Roth IRA can compound tax free over an extended period of time. Generally, the future value of the Roth IRA could be potentially greater than that of a Traditional IRA.
- **No Minimum Distributions**—Roth IRAs do not have required minimum distributions beginning at age 70½—unlike other types of IRAs. Therefore, for individuals who do not need to tap into Roth IRA funds to provide for their living expenses, the Roth IRA can grow uninterrupted during the owner's lifetime. This is a great opportunity for those individuals wishing to maximize their legacy for their heirs.
- **Access to Funds**—After five years and upon reaching the age of 59½, any distributions of earnings are tax free and penalty free. Earnings taken before the end of the 5-year period and the attainment of age 59½ are subject to ordinary income tax and a 10 percent penalty.
- **Contributing After 70½**—An individual has the ability to make contributions after age 70½ (if there is eligible earned income). Traditional IRA contributions cannot be made after age 70½.
- **Legacy Building**—Since Roth IRAs do not have a minimum distribution requirement during the owner's lifetime, Roth IRA assets funds can remain in the account, potentially leaving more assets to your heirs.
- **Income-Tax-Free Distributions**—After 5 years from the date of conversion (or 5 years from January 1st of the year for which you first opened a Roth IRA, if earlier), distributions are income tax free if the owner has reached age 59½, died, become disabled, or is a first-time home buyer ($10,000 lifetime limit). This also means they do not come into play in determining the amount of Social Security benefits that are subject to taxation. The conversion amount is tax penalty free after 5 years from the date of conversion even if the owner is not yet 59½ or meets another penalty exception.
- **Not All or Nothing**—You can choose to convert all or a portion of your account, if you qualify. It does not have to be the entire account balance. You can also convert smaller amounts each year so that the tax hit is taken over a number of years.

OTHER CONSIDERATIONS

- **Up-Front Income Tax Liability**—When converting to a Roth IRA, individuals will have to pay income tax on the amount converted, instead of paying taxes later upon withdrawal.
- **Future Market Risks**—There is a risk that future adverse market conditions or legislative changes could negatively impact the conversions.

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- **Possible Impact of Increased Adjusted Gross Income—** The converted amount will be added to income and may cause more of Social Security to be taxed, and personal exemptions and itemized deductions could be subject to phaseouts. This increase in income may also impact the amount of investment income subject to the 3.8% investment tax for high income taxpayers.
- There are no minimums or limits regarding the amount that must be converted, but any previously untaxed money in a Traditional IRA must be declared as income, and it will be taxed at ordinary income tax rates.
- Although the income limits to convert to a Roth IRA have been eliminated, there are still income limits on eligibility to make a Roth IRA contribution. Individuals who are unable to make a Roth IRA contribution can make contributions to Traditional IRAs and then immediately convert that contribution to the Roth.
- The payment of income tax prior to the imposition of estate tax allows for greater wealth to be transferred to future generations. Paying the income tax now reduces the amount of assets subject to estate tax, thus reducing the amount of your estate being paid to the government.
- Greater growth potential, to the extent that outside sources (i.e., taxable brokerage account) are used to pay for the taxes due on the Roth IRA conversion. This leaves more assets in the Roth IRA to continue to grow income tax free. (Note that if assets from within the IRA are used to pay taxes on the conversion, those amounts are subject to a 10% tax penalty if under age 59½.)
- If you believe that income tax rates will be higher when you retire or when you are ready to take distributions than they are now, converting to a Roth IRA may result in paying taxes at lower rates.

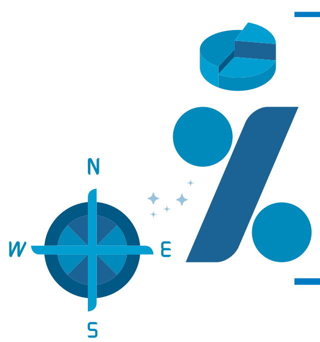
401(k) ROLLOVERS TO ROTH IRAS

Under the current tax law you can roll over a 401(k) plan from a former employer directly to a Roth IRA, regardless of your modified adjusted gross income (MAGI). You will still need to pay income tax on any taxable dollars rolled over.

When converting a 401(k) to a Roth IRA you can avoid the proration rule* associated with Traditional IRA conversions. This can be helpful if you have nontaxable money in the 401(k) plan and your goal is to minimize the taxes you'll pay when you convert.

For example, if you receive a $100,000 distribution from your 401(k) plan, and $40,000 is nontaxable because you've made after-tax contributions, you can roll the $40,000 over tax free directly to a Roth IRA, and roll over the balance ($60,000) tax deferred to a traditional IRA.

*Traditional IRAs that contain both pre- and after-tax dollars are converted on a pro rata basis. After-tax dollars cannot be distributed prior to pre-tax contributions.



REMINDER: This is the time to meet with your tax advisor to decide whether you should consider converting your Traditional IRA or 401(k) from a former employer to a Roth IRA. Tax-free wealth building and the ability to avoid required minimum distributions are great options for people who do not have to count on their IRA funds in retirement. Of course, a Roth conversion is not right for everyone. A decision to convert should be carefully analyzed prior to being completed. That said, anyone who was not eligible to make Roth contributions or convert in prior years should consider whether this opportunity is appropriate for their circumstances.

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