

THE ROTH IRA

*Your Questions
Our Answers*

Your promotional imprint here
and/or back cover.



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“Am I saving enough for retirement?”

is a question on the minds of many people these days. Unfortunately, for many individuals, the answer is, “No.”

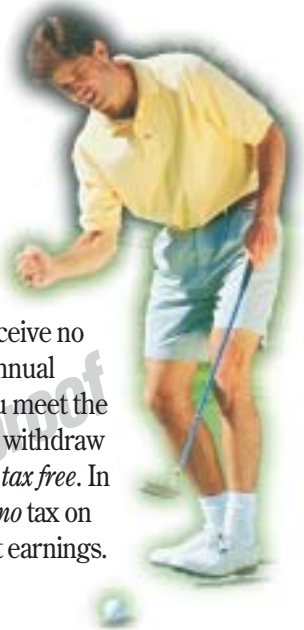
To encourage people to put money aside for the future, the government offers tax benefits to retirement savers. One of the available tax-advantaged saving methods is the *Roth IRA*.

In this brochure, we answer questions about Roth IRAs and explain the potential advantages these accounts offer. We hope the information we present helps you start the process of deciding whether a Roth IRA is right for you.

Q. What is a Roth IRA?

A. The Roth IRA is the opposite of the traditional deductible individual retirement account. With a traditional deductible IRA, you may deduct contributions (within limits and only if you satisfy certain requirements), but all withdrawals are fully taxable.

With a Roth IRA, you receive no up-front deduction for annual contributions. But, if you meet the tax law’s rules, you may withdraw money from a Roth IRA *tax free*. In other words, you’ll owe *no* tax on the account’s investment earnings.



Q. How much can be contributed to a Roth IRA each year?

A. Eligible individuals may contribute up to \$5,000 for 2010, or the amount of annual compensation, if less. The figure for future years is subject to adjustment for inflation. A married couple can contribute twice as much as the annual limit (or their joint income, if less), even if one of them does not earn income.

If you are age 50 or older, you also may make additional “catch-up” contributions to a Roth IRA. The maximum catch-up amount is \$1,000.

Q. May I contribute to both a deductible IRA and a Roth IRA in the same year?

A. If you are eligible to contribute to both types of IRAs, you may do so. However, contributions to all of your personal IRAs for a tax year cannot exceed the contribution limit for that year. So, with a \$5,000 limit, if you contribute \$2,000 to a deductible IRA for the year, you may contribute only \$3,000 to a Roth IRA for that same year.



2010 Roth IRA Income Limits

	Single or Head of Household	Married Filing Jointly
Full contribution with AGI* up to:	\$105,000	\$167,000 (joint)
The amount of the contribution phases out if AGI* is between:	\$105,000–\$120,000	\$167,000–\$177,000 (joint)
No contribution is allowed if AGI* equals or exceeds:	\$120,000	\$177,000 (joint)

* Refers to AGI with specified modifications.



Q. Are there any age limits for contributing?

A. No. A Roth IRA contribution can be made by a person of any age, as long as he/she is otherwise eligible. Unlike with a traditional IRA, contributions to a Roth IRA may be made even after age 70½.

Q. How do I become eligible for a Roth IRA?

A. Generally speaking, eligibility depends on your adjusted gross income (AGI) for a year and your tax filing status, as shown above.

Contrary to a traditional deductible IRA, the income limits apply whether or not you actively participate in an employer’s retirement plan. So, if you are single and participate in a plan at work, you may still contribute a full \$5,000 to a Roth IRA for 2010 as long as your

AGI does not exceed \$105,000 (and as long as you earn at least \$5,000 during the year).

Q. How are distributions from a Roth IRA treated for tax purposes?

A. Qualified distributions from a Roth IRA are free of federal income taxes. To qualify, a distribution may be taken only:

- After you have had a Roth IRA for five tax years (count the tax year of your first contribution as the first year) *and*
- On or after the date you reach age 59½, due to your death or disability, or for qualified first-time home buyer expenses. (Qualified distributions for home buying expenses can't total more than \$10,000 in your lifetime. The expenses can be for you or your spouse, or a child, grandchild, or ancestor of you or your spouse. Other requirements apply.)

Any other Roth IRA distributions are taxable to the extent of the account earnings. Unless an exception applies, the 10% early distribution penalty tax will also be imposed on the taxable amount. For example, if an individual withdraws funds from a Roth IRA within five tax years from first contributing, the amount withdrawn (minus the amount of

already taxed contributions) will be hit with income taxes and, if applicable, the 10% penalty.

Q. When must I start taking distributions from a Roth IRA?

A. The tax law's minimum distribution rules for traditional IRA owners over age 70½ don't apply to Roth IRAs. So, you can keep your money in a Roth IRA as long as you want.

Q. Which is better for me — a traditional deductible IRA or a Roth IRA?

A. The answer depends on a number of factors. Very generally, if you expect to be in a *lower* income-tax bracket when you retire than you are now, a deductible IRA may result in a larger after-tax accumulation at retirement (with all other factors, such as investment returns, being equal). If your tax bracket will be the *same or higher*, a Roth IRA may be the better choice. But, for many individuals, there is *no* decision to make.

For them, a fully deductible IRA contribution is simply not an option.

Here's why: If you participate in a retirement plan at work, your traditional IRA contribution deduction is limited by your AGI. The AGI limits for traditional IRAs are much lower than those for Roth IRAs. For example, in 2010, the deduction phaseout ranges are \$56,000 to \$66,000 of AGI for single



Deductible IRA vs. Roth IRA — A Comparison

	Contributions	Earnings	Distributions*
Traditional Deductible	Deductible**	Tax deferred	Fully taxed
Roth IRA	Nondeductible	Tax free	Tax free***

* Early distributions may be subject to an additional 10% penalty tax.

** Subject to AGI limits for plan participants and spouses.

*** If all requirements are met.

and head of household filers and \$89,000 to \$109,000 for joint filers.

Therefore, for instance, a married plan participant with 2010 joint AGI of \$110,000 is not eligible to make a deductible IRA contribution, since AGI exceeds the \$109,000 deductible IRA ceiling for the year. But that same person may still contribute a full \$5,000 to a Roth IRA, since AGI is below the \$167,000 Roth IRA threshold.

If you don't participate in a retirement plan at work, but your spouse does, you also may be limited in making a deductible IRA contribution. In that case, however, the phaseout range is the same as that for the Roth IRA (that is, \$167,000 to \$177,000 of AGI in 2010).

Q. What if I already have an IRA? May I switch it over to a Roth IRA?

A. Current IRA owners may convert or “roll over” amounts from existing deductible or nondeductible IRAs to a Roth IRA. Existing rollover IRAs also qualify. However, any taxable amounts that you transfer from an existing IRA to a Roth IRA must be included in your

income for tax purposes. (No early distribution penalty applies if the full taxable distribution is rolled over.)

Starting in 2010, there are no income or filing status restrictions on Roth IRA conversions. Previously, a rollover to a Roth IRA was *not* allowed if your AGI for the year exceeded \$100,000 or if you were a married individual filing a separate return.

If you convert your IRA in 2010, you may defer the income from the conversion and report half of it on your 2011 tax return and half on your 2012 return. Or you may elect to include all the income on your 2010 return. The income deferral opportunity is available for 2010 conversions only.

Q. Then, is switching an existing IRA into a Roth IRA a good idea?

A. Rolling over an existing IRA offers many current IRA owners a significant tax-planning opportunity.

But be aware that rolling over an existing IRA to a Roth IRA will not benefit everyone. And, even if you will benefit, caution is still warranted.

Strict requirements apply to rollovers, and a wrong move could lead to a tax penalty.



Factors Favoring a Rollover to a Roth IRA

- The amount in your existing IRA is relatively small.
- The majority of your existing IRA is made up of nondeductible contributions.
- You have many years before retirement.
- You anticipate that you will not need your IRA money to live on in retirement and want it to continue to build up tax free as long as possible.
- You have sufficient non-IRA funds to pay the taxes on the taxable rollover amount.
- Your retirement tax bracket will be the same as or higher than your current bracket.

Whether you should convert an existing IRA to a Roth IRA generally depends on your personal situation, including your current and anticipated future tax rates and when you will need your retirement money.

Q. How do I find out more?

- A.** Talk to us. Our knowledge and experience make us an excellent source of the information you need to make the right choice regarding your IRA alternatives, including the Roth IRA. Our retirement planning professionals will work with you to explore which option is best for you.

This booklet is intended to provide authoritative information about the subject matter covered. It does not, however, constitute tax, accounting, or legal advice. Before applying anything in this booklet to your personal situation, you should consult with your tax advisor. The information in this publication may or may not be applicable to you, and you should only act in the context of your specific circumstances.

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