NEXT GENERATION
WEALTH MANAGEMENT

Retirement Planning Update:
SHOULD YOU CONVERT YOUR TRADITIONAL IRA TO A ROTH IRA

As the New Year rapidly approaches, *Next Generation Wealth Management, Inc.* would like to address the upcoming 2010 Roth IRA conversion opportunity. Beginning on January 1, 2010, all individuals are eligible to convert their Traditional IRA to a Roth Conversion IRA, regardless of the income level or the manner in which you file your tax return.

These upcoming changes to tax legislation regarding the Roth IRA may allow you to generate tax-free retirement income for yourself, and quite possibly for your beneficiaries. Therefore, we have identified 8 reasons why you should consider converting to a Roth IRA:

1. SPECIAL TAX TREATMENT: In previous years, you needed to recognize the full taxable income from your Roth conversions in the conversion year. However, under a special rule for conversions in 2010, you may elect to recognize the taxable income equally, over a period of two years, in 2011 and 2012.

2. NO REQUIRED MINIMUM DISTRIBUTION [RMD]: A Traditional IRA requires an annual withdrawal beginning at age 70 ½. In a Roth IRA conversion account, there are no mandatory distributions, thereby allowing you to leave the assets in your account for your lifetime. This allows for greater tax-free growth over a longer time period.

3. TAX FREE WITHDRAWALS: Since you pay taxes on the Roth conversion up front, your withdrawals from the Roth IRA are tax-free. [Stipulation – the assets must remain in the account for five years and you must be 59 ½ years of age]. If the Roth IRA is passed on to your heirs, they will enjoy tax free withdrawals as well.

4. GREATER OPPORTUNITY FOR GROWTH: If you leave the assets in your Roth IRA [vs. a mandatory distribution in your Traditional IRA] you'll receive the benefit of any compounding tax-free growth that may occur. Secondly, if the taxes owed on the Roth conversion are paid from outside sources, you allow the monies that are tax-free to remain in your portfolio and appreciate in a tax-free vehicle.

5. RECHARACTERIZATION: If you convert to a Roth IRA and the value of your portfolio declines significantly or your personal circumstances changes, you may elect to transfer these assets back to your Traditional IRA and negate ["recharacterize"] the transaction. The recharacterization must occur by the tax deadline, including extensions, for the tax year in which the conversion took place.

6. ESTATE PLANNING: Converting to a Roth IRA may also deliver benefits from an estate planning perspective, especially if you plan on passing your IRA assets to the next generation. Upon inheriting your Roth IRA, your beneficiaries will be able to receive tax-free distributions.

7. TAX ATTRIBUTES: If you have large business and / or ordinary losses, charitable contributions and / or net operating loss carryforwards, for example, converting to a Roth IRA will increase your ordinary income, which can offset certain carryforward losses.

8. TAX RATE OUTLOOK: It is an advantage to convert a Traditional IRA to a Roth IRA if you believe the tax rates will remain the same or increase in the future, and a disadvantage if tax rates are reduced.

TO ROTH, OR NOT TO ROTH?
IS CONVERTING YOUR TRADITIONAL IRA INTO A ROTH IRA RIGHT FOR YOU?

As a general guideline, we believe it is important to consider these Rules for Conversion:

NON RETIREMENT FUNDS: You should be able to pay the taxes due from monies that are held outside of your IRA. Paying taxes from your Roth IRA conversion account is not favorable as you lose the potential for compounding tax free growth of the assets that are distributed from the IRA as well as the risk to pay more taxes [if you're under 59 ½, you will pay the 10% penalty tax].

TIME HORIZON: A Roth IRA conversion becomes more advantageous if you have a longer time period for the Roth IRA value to potentially appreciate. In addition, if you do not need these assets for daily living needs while in retirement, it's even more advantageous as you can continue to build wealth for yourself and perhaps, your beneficiaries.

TAX BRACKET: This rule is a wild card as no one knows the tax code in future years. In determining if you should convert to a Roth IRA, you need to review tax rates as well as your future income prior to making any decision. If you will be in a higher tax bracket when you retire, a Roth IRA conversion might be the right choice. Conversely, if you will be in a lower tax bracket, a Roth IRA conversion may not be in your best interest.

WHAT TO DO: NEXT STEPS

The Roth IRA conversion is a complex decision. In fact, there are even exceptions to the "Rules to Convert" that we've noted above. Whether you are considering converting for tax-free retirement income for yourself or for estate planning purposes, you should consult with your financial advisory team to review if a conversion is right for you / your family.

At *Next Generation Wealth Management,* our experienced team is looking forward to help you plan for these difficult decisions. We're committed to working with you to understand how a Roth IRA may fit in your plan and whether a conversion makes sense. It's not too late to plan for 2010 now!

If you would like to learn more about how this tax legislation could impact you, please contact us directly at (414) 257-4248 or you may visit our website at www.ngwealth.com.

Sincerely,
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