WELLS FARGO ADVISORS

Roth IRA conversion

Lifetime Retirement Planning with Wells Fargo Advisors

One financial strategy that is often overlooked when investors are evaluating their retirement and estate planning options is the Roth IRA conversion. Learning more about the Roth IRA conversion may be a sensible step whether you are designing a comprehensive estate plan, trying to maximize your legacy for younger family members, or seeking tax-free savings opportunities for your retirement.

Converting allows you to reposition your current tax-deferred Traditional IRA to a tax-free Roth IRA by paying ordinary income tax (but without the 10% penalty tax) on the entire amount converted. Once the rollover to the Roth IRA is completed, you may be maximizing your potential earnings with tax-free growth.

Eligible rollover distributions from an employer-sponsored retirement plan balance can be converted to Roth IRAs. These conversions can be made through a direct rollover of before-tax and/or after-tax money from the plan to the Roth IRA, or an amount can be distributed from the plan and rolled over to the Roth IRA within 60 days. A Roth conversion of after-tax amounts will not be taxable income. Any pre-tax amount converted will be included in the IRA holder's gross income for the year.

All taxpayers are able to convert to a Roth IRA regardless of their MAGI (modified adjusted gross income) or tax filing status. All taxes on conversions will be due in the year converted. Please note that if you elected to spread 2010 conversion income equally over tax years 2011 and 2012, taxes due in regard to the Roth conversion may be accelerated if a distribution is taken before 2012; please consult your tax advisor for more information.

Unlike Traditional IRAs, there are ordering rules when taking distributions from a Roth. The first dollars that come out are contributions. Because Roth contributions are not deductible, they are not subject to the tax or early distribution penalty. Contributions can be taken at any time. After the contribution basis is depleted, the next dollars distributed are any converted amounts.

Once assets are converted to a Roth IRA, distributions of those converted amounts, prior to the expiration of a five-year holding period (beginning with the year of conversion) or age 59½ has been attained, whichever comes first, are subject to a 10% penalty, unless an exception applies.

Any distribution of earnings is tax-free and penalty-free after five years **and** age 59½, death, disability, or first time homebuyer. Earnings taken before the five-year period has lapsed and the attainment of age 59½, death, disability, or first time homebuyer, are subject to ordinary income tax and a 10% penalty unless exceptions apply.

Exception to the 10% penalty include death, disability, substantially equal periodic payments (SEPP), eligible medical expenses, certain unemployed individual's health insurance premiums, limited "first-time" homebuyer, higher education expenses, Roth conversion, qualified reservist, or IRS levy.

Let's review a couple of hypothetical examples to clarify the Roth distribution rules.

Edward's hypothetical example

Edward, age 38, has an existing Roth IRA that was first funded in 2008. He has made $20,000 in Roth Contributions from 2008

Please contact me if I can be of further assistance.

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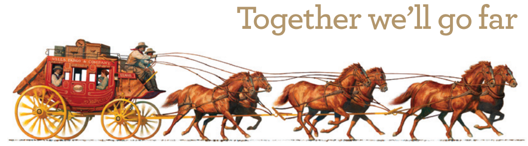
Together we'll go far



through 2011. He executed a Roth conversion of $20,000 from his Traditional IRA in 2010. His account value today is $50,000. He requests a $25,000 distribution from his Roth IRA to pay for unexpected expenses that don't quality for an exception to the pre-mature penalty. The first $20,000 distribution is from his contributions so he owes neither tax nor penalty on that amount. The next $5,000 distribution is from his converted amount. He paid tax on that amount when he executed a conversion but since the converted amount was distributed prior to the five-year holding period and Edward is not age 59½, he will pay a 10% penalty on that amount.

Elena's hypothetical example

Elena, age 60, has requested a $25,000 distribution from her Roth IRA. She opened a Roth IRA in 2009 and executed a $50,000 rollover from her Traditional IRA. Her Roth IRA is now worth $60,000 and she has made no contributions to this account. The $25,000 consists of converted amounts and since she is over age 59½ she will pay no penalty or tax on the distribution. If instead she would have requested a distribution of $60,000 she would have owed tax, but no penalty, on the $10,000 that was earned since she had not had the account for at least five years.

Additionally, if you or your spouse has earned income, contributions can be made after age 70½. Taking required minimum distributions (RMDs) is not necessary during your lifetime from a Roth IRA; this optimizes your potential to build tax-free wealth for future generations.

The Roth conversion offers you unprecedented opportunities as a planning tool for those seeking to maximize their estate planning options. Reasons to consider converting may include the following:

- Investors who can pay the income tax due on the Roth conversion from non-retirement funds benefit because of their ability to enjoy greater tax-free distributions in the future
- Suspension of the RMD rules at age 70½ may provide considerable wealth accumulation potential
- Timing your Roth conversion or choosing to make several conversions can help you control your tax burden
- Investors choosing to use their Roth IRA to fund their unified credit (bypass) trusts may allow the bypass trust to be funded both income- and estate-tax free

Surviving spouses inheriting their deceased spouse's qualified employer-sponsored retirement plan can also execute a Roth conversion. If the plan holds after-tax funds, those funds can be directly transferred to a Roth IRA or an Inherited Roth. Such a transaction would result in a tax-free conversion under the IRS rules.

The spouse also has the option to convert all or a portion of the pre-tax dollars into a Roth or Inherited Roth IRA. Any resulting taxes will be generally due in the year of the conversion.

Non-spouse beneficiaries who inherit an employer-sponsored retirement plan are eligible to make a direct trustee-to-trustee transfer to an Inherited Roth IRA. These conversions can be made through a direct rollover of before-tax and/or after-tax money from the plan to the beneficiary's Inherited Roth IRA. A Roth conversion of after-tax amounts will not be taxable income. Any pre-tax amount converted will be included in the Inherited Roth IRA holder's gross income for the year. Remember you still have to take RMDs each year from your Inherited Roth IRA. If you have an Inherited Traditional and Inherited Roth IRA, RMDs must be taken from both accounts. Only a direct transfer is allowed. This is a non-taxable distribution from the qualified plan that is sent directly to the new custodian and will be reported to the IRS as a rollover. Failure to employ the direct transfer process could make this transaction fully taxable to the beneficiary and end the tax-deferral available under the Inherited IRA.

NOTE: Non-spouse beneficiaries who inherit Traditional IRAs cannot convert them to Inherited Roth IRAs.

Please contact your Financial Advisor at Wells Fargo Advisors if you want to learn more about the Roth IRA conversion. Our Roth Conversion Analyzer is designed to give you the customized illustrations you'll need to review your options and to make more informed decisions for your family's future.