

Googins & Anton

Investment Advisors/Financial Planners

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Dear Friends:

Roth Conversions – They’re Complicated!!

Yes, in 2010 it is possible for the “high” income owners to convert all or some of their IRA and other retirement accounts to Roth IRA’s. You pay income taxes on the moneys you have previously deferred and you can defer the tax payments into 2011 and 2012. The advantage is the promise of that account being tax free “forever” after the conversion.

Yes, the government is offering this in order to increase the government’s revenue. It’s “good” for the government – is it good for you also?

Do you know? If tax rates do not change in future years, there is nothing accomplished by converting. The amount you pay in taxes as you pull money out of the IRA will be the same; it may be more dollars but it will be the same percentage of capital.

Do you know? Wisconsin has not yet accepted the federal government’s new rules. If Wisconsin does not, Roth conversions would be taxed and possibly penalized each year in your Wisconsin income tax calculation.

Do you know there can be “traps”? Even though you convert only a portion of your retirement accounts, employee-sponsored SEPs and SIMPLE IRA’s are put into the calculation to determine how much of the conversion amount will be taxable. This increases the taxable amount.

Do you believe the government will always honor today’s rules and allow future Roth distributions to remain tax free? Do you remember when social security was set up to be tax free because the contributions were taxed? But approximately ½ of American tax payers now pay some tax on the social security system payments they receive in retirement. And, a few years ago, seniors began paying 2 and 3 times the normal medicare premiums because their income has been deemed “too high.”

I’m not discouraging Roth Conversions and I heartily support current contributions if you qualify – I’m (hopefully) simply pointing out some of the variables and risks. Whether you choose to convert or not, it is important to realize you are accepting a number of assumptions about the future. There is no way of knowing with certainty that either converting or not converting will work out as expected. It’s risky to predict government policy and action.

Many companies will encourage you to convert and have you purchase a new product. That is

not necessary. All accounts held through Googins & Anton can be converted to Roth IRA's without changing the investments. There is paperwork to be filled out but the additional costs or fees will be minimal. The main cost should be the income tax you pay, not an investment cost.

We continue to read articles which outline some unintended possible consequences in conversions. A new homebuyer tax credit is available for long term homeowners. It's complicated, but Ed Slott, a highly recognized certified public accountant says, "A poorly timed conversion, or claiming credit in the wrong year, can cause a loss of the tax reduction."

I could go on, but I hope I have made my point: the benefits of converting are not absolute fact; they are someone's opinion and dependent upon the variables known and included in the personal calculation.

Give us a call to discuss more.

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