

The 2010 Roth IRA opportunity

One-year window allows expanded access with a tax break

SAVING : INVESTING : PLANNING

In 2010, you have an exceptional opportunity to take advantage of the powerful features of a Roth IRA, and save on income taxes at the same time—even if income restrictions have previously prevented you from investing in a Roth IRA.

Expanded access in 2010

The Tax Increase Prevention and Reconciliation Act of 2005 eliminated the \$100,000 income limit for qualified rollovers to a Roth IRA beginning in 2010. The Pension Protection Act of 2006 made possible the direct rollover of funds from a pretax eligible retirement plan to a Roth IRA. This opens the door to the benefits of a Roth IRA to persons who had not previously been eligible because of income restrictions. You can make qualified rollovers to a Roth IRA as follows:

- > Convert funds from a traditional IRA.
- > Roll over funds from an eligible retirement plan.

And there is no limit to the amount you may convert or roll over.

One-year window for a tax break

Normally, when you convert or roll over funds in a tax-deferred account to a Roth IRA, you owe income taxes on the amounts not previously taxed. This could push you into a higher tax bracket. But under the modified regulations for 2010:

- > You may wait to report the taxable amount of the funds converted or rolled over in 2010 as income in 2011 and 2012. However, under current law, the current tax rates will expire at the end of 2010 and several marginal rates will revert to rates in effect prior to the passing of the Economic Growth and Tax Relief and Reconciliation Act of 2001. Those who wait to pay the tax in 2011 and 2012, may be faced with a higher tax rate.
- > If you wait to spread the tax out over the next two years, you don't pay income tax in 2010 on the taxable amount of the funds converted or rolled over. You might not go into a higher tax bracket.

Why a Roth IRA?

- > Tax-free distributions when certain conditions are met
- > Investment profits compound tax deferred

Also, unlike traditional IRAs, Roth IRAs are not subject to lifetime minimum distribution rules. That means you can leave your money in a Roth IRA as long as you live and continue to reap the benefits of tax-deferred growth. Another reason to roll over to a Roth IRA is if you believe your federal income tax is going to increase over time.

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Converting your traditional IRA or rolling over funds in your employer-sponsored plan to a Roth IRA could be a good move—especially in 2010 when you can spread the income tax over the next two years. If you have questions, talk with your VALIC financial advisor to learn more.

If the idea of tax-free income during retirement sounds good to you, then it's time to look into a Roth IRA. Benefits include the following:

- > Tax-free distributions when conditions are met
- > Tax-free growth of investment profits
- > No lifetime minimum distribution requirements

To qualify for tax-free status, withdrawals must be taken after a five-year holding period in addition to meeting one of these conditions:

- > Age 59½
- > Total disability
- > Qualifying first-time home purchase
- > Death

Roth IRA contributions

In addition to rollovers or conversions, you might be able to make yearly contributions to your Roth IRA.

- > \$5,000 maximum contribution in 2010

Contributions to a Roth IRA are never tax-deductible. Limits are indexed yearly by the IRS. To contribute to a Roth IRA, your adjusted gross income (AGI) must fall beneath a set limit. There is a "phase-out" range for persons in higher income ranges as shown in the table below.

Taxpayer status	Eligible for full contribution of \$5,000 in 2010	Eligibility phase-out	Not eligible to contribute
Married, filing jointly	Up to \$167,000	\$5,000 less \$500 for every \$1,000 of income above \$167,000	More than \$177,000
Single filer	Up to \$105,000	\$5,000 less \$267 for every \$1,000 of income above \$105,000	More than \$119,000

Age-based catch-up contribution of an additional \$1,000 in 2010 is available for those age 50 or older.

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