

Traditional IRA v. Roth IRA



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As of January 1, 2010 most investors were allowed to transfer money from a traditional IRA, Rollover IRA, SEP-IRA, SAR-SEP IRA, or SIMPLE IRA to a Roth IRA. Before this, only people with *Modified Adjusted Gross Income (MAGI)* under \$100,000 were allowed to make the switch. Switching to a Roth IRA means people can take withdrawals tax-free, **as long as they are at least 59.5 years old and the money has been in the Roth IRA for at least 5 years**. By contrast, the earnings and pre-tax contributions to the IRA are taxed as ordinary income when withdrawals are made.

In addition, unlike a traditional IRA, a Roth IRA is **not** subject to the age 70.5 *Required Minimum Distribution (RMD)*. Investors must pay (Federal, State) tax on the money they move from a traditional IRA to a Roth IRA. However, it may be more palatable to pay taxes now, especially if you think tax rates will be higher in future years.

It's also important to note that for conversions in 2010, the taxes owed can be deferred and spread over tax years 2011 and 2012. The decision can involve a complex calculation for investors. For example, should you pay any taxes owed from the money to be converted or from other outside assets? Here are four websites for information and calculators to help you make an informed decision regarding Roth IRA conversions:

- Fidelity.com/rothevaluator
- RothRetirement.com
- Schwab.com/roth
- Vanguard.com/rothconversion

It's important to note that the changes to the **conversion rules do not change the rules for new contributions to a Roth IRA:**

- Contributions - After tax
- Contribution limits - \$5,500 (2010) plus up to \$1,000 catch-up contribution if you are 50 years of age or older
- Income Limit – Contributions can not be made if your *Modified Adjusted Gross Income (MAGI)* is \$176,000 or more if you are married filing jointly or \$120,000 or more if you are single. A partial contribution may be made if your *MAGI* is between \$166,000 and \$176,000 (married filing jointly) or between \$105,000 and \$120,000 (single)

Contact your Account Executive if you would like more information from the WGA Retirement Services Team.

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