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Solutions Centered Wealth Management



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To Roth or Not to Roth

We anticipate that Roth IRA conversions will become the subject of significant media coverage in 2010. So, we'd like to get you this information early so you can determine if a Roth conversion is right for you. Under 2009 tax legislation, Roth conversions are limited to married couples or single filers with modified adjusted gross income (MAGI) under \$105,000.

So why the anticipation of all of the media coverage?

Beginning January 1, 2010, the MAGI restrictions are lifted and anyone will be eligible to convert their Traditional IRA to a Roth IRA. Please note that when a conversion is executed, the amount converted is subject to income taxes based on your current tax bracket. Depending on your current tax bracket and what might happen to income taxes in the future, this option could be a prudent financial planning strategy as well as a wise estate planning move for many people.

Another change available only in 2010 will be the option to convert and elect to pay the income taxes due in installments over two subsequent years, 2011 and 2012. This may not be as appealing as it appears on the surface for many as the 2001 Bush Tax Cuts are scheduled to sunset at the end of 2010 and tax rates will return to the pre-2001 higher rates.

Here are several reasons you may want to consider for converting to a Roth IRA.

1. There are no required minimum distributions (RMD's) for the Roth. If you don't need the money, you can leave it there for your lifetime.
2. Once the assets are converted to the Roth IRA, they continue to grow *tax free*, not tax deferred. With the current national debt at almost \$12 trillion and the White House forecasting an additional \$9 trillion of debt over the next decade, it will take more than careful spending to bring the budget into balance.
3. The beneficiaries of Roth IRA's can inherit accounts income tax free. Furthermore, with proper planning they could potentially "stretch" the Roth IRA into a lifetime tax free income.

Roth conversion rules permit owners to re-characterize or "undo" a conversion within certain time frames. This makes sense when the Roth declines in value substantially, distorting the tax bite in relation to the value of the converted Roth. The Roth converter has the option to reverse the conversion up to the tax filing deadline for the year of conversion. For those converting in 2010, the final re-characterization deadline would be October 14, 2011 with the proper use of tax filing extensions. If a Roth conversion is completed in early January 2010, the taxpayer could have up to 21 months to evaluate the performance of the converted IRA.

These are only brief highlights of the Roth IRA conversion. The decision to convert is a very complex one with many factors to be considered.

Please call us to discuss your situation. We'll look at all of the variables and guide you to the proper decision for your personal situation.