

MORE ROTH ROLLOVERS AHEAD?

Beginning in 2010, more retirement plan participants will be able to roll over eligible distributions to Roth IRAs. With the start of the New Year, the tax law's income and filing status restrictions on these rollovers are rescinded. (Before 2010, Roth IRA rollovers, other than from a designated Roth account, are available only to participants with modified adjusted gross income of \$100,000 or less. If married, the participant must file a joint return.)

Tax Consequences:

Participants may like the idea of rolling their retirement savings into a Roth IRA because it can serve as a source of tax-free income during retirement, but there is a price to be paid. Unlike rollovers to traditional IRAs, Roth IRA rollovers are taxable.* On the plus side the 10% early withdrawal penalty won't apply.**

If the rollover is accomplished by way of a direct trustee to trustee transfer, 20% federal income tax withholding is not mandatory. Withholding is required for distributions paid to participants.

Another Option:

A participant who isn't sure about rolling over a distribution to a Roth IRA may want to opt for a tax-free rollover to a traditional IRA. If desired, the participant could later convert the traditional IRA to a Roth IRA. Taxes would be payable on the conversion.

*Exception: Distributions from designated Roth accounts may be rolled over to Roth IRAs tax-free.

**The 10% penalty could apply to an early withdrawal from the Roth IRA within a specified five-year period after the rollover.

