

# Thank you for joining the “Is the Roth right for me?” webinar

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- ▶ Our session will begin shortly. Before we get started, please note the following:
- ▶ All phone lines will be muted for the duration of the presentation.
- ▶ A PDF manual including a copy of today's slides can be downloaded and printed from the WebEx site. Please take the time to print this now, if you prefer to have it available for note-taking.
- ▶ There will be a 4-question survey for your completion at the end of our session. We appreciate your time in providing that feedback!

# Circular 230 disclaimer

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- ▶ Any US tax advice contained herein was not intended or written to be used, and cannot be used, for the purpose of avoiding penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.
- ▶ These slides are for educational purposes only and are not intended, and should not be relied upon, as accounting advice.

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# **Ernst & Young LLP**

## **Is the Roth right for me?**

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# Objectives

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Understand the features of a Traditional IRA

Understand the features of a Roth IRA

Learn how to compare a Traditional and a Roth IRA

Recognize Roth IRA conversion opportunities

Learn to use other tools and resources available to you

Know which steps to take next

# What financial tools and resources are made available to you?

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**Telephone counseling**  
*EY Financial Planner Line®*

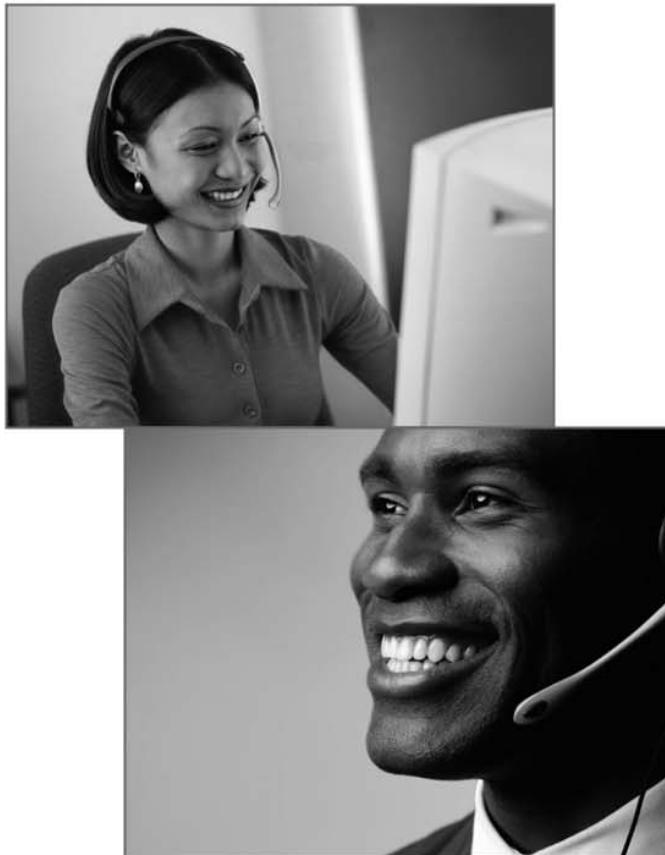
**Website**  
Ernst & Young Financial  
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# EY Financial Planner Line®

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- ▶ No cost for employees
- ▶ Objective and confidential
- ▶ Financial planning
  - ▶ Retirement
  - ▶ 401(k) / investments
  - ▶ Education
  - ▶ Insurance
  - ▶ Debt & spending
  - ▶ Much, much more!
- ▶ How To get started:
  - ▶ Visit the EYFPC to locate the phone number on the home page
  - ▶ Call Monday – Friday 9 AM – 8 PM, EST

# EY Financial Planning Center Website



**ERNST & YOUNG**  
Quality In Everything We Do

**Ernst & Young Financial Planning Center**

**Welcome to the Ernst & Young Financial Planning Center**

Our mission is to assist organizations and their human resource department to build, test, implement, and improve financial education programs that support the organization's mission and objective.

We accomplish this by helping employees develop skills to make informed decisions and take action to improve their financial well-being.

**Member Log In**

Company Code

Company Program

**Log In**

**About Us**

Ernst & Young's 135,000 people work together to help clients achieve their potential.  
[Discover more...](#)

## Action Step

- Visit the EYFPC Website for financial videos, articles, tools and other planning resources

# Personal action plan

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Action Step	When	Done
		<input type="checkbox"/>

## Action Step

► Create your own personal action plan throughout this presentation

# Agenda

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Basics of IRA Eligibility

Features of a Traditional IRA

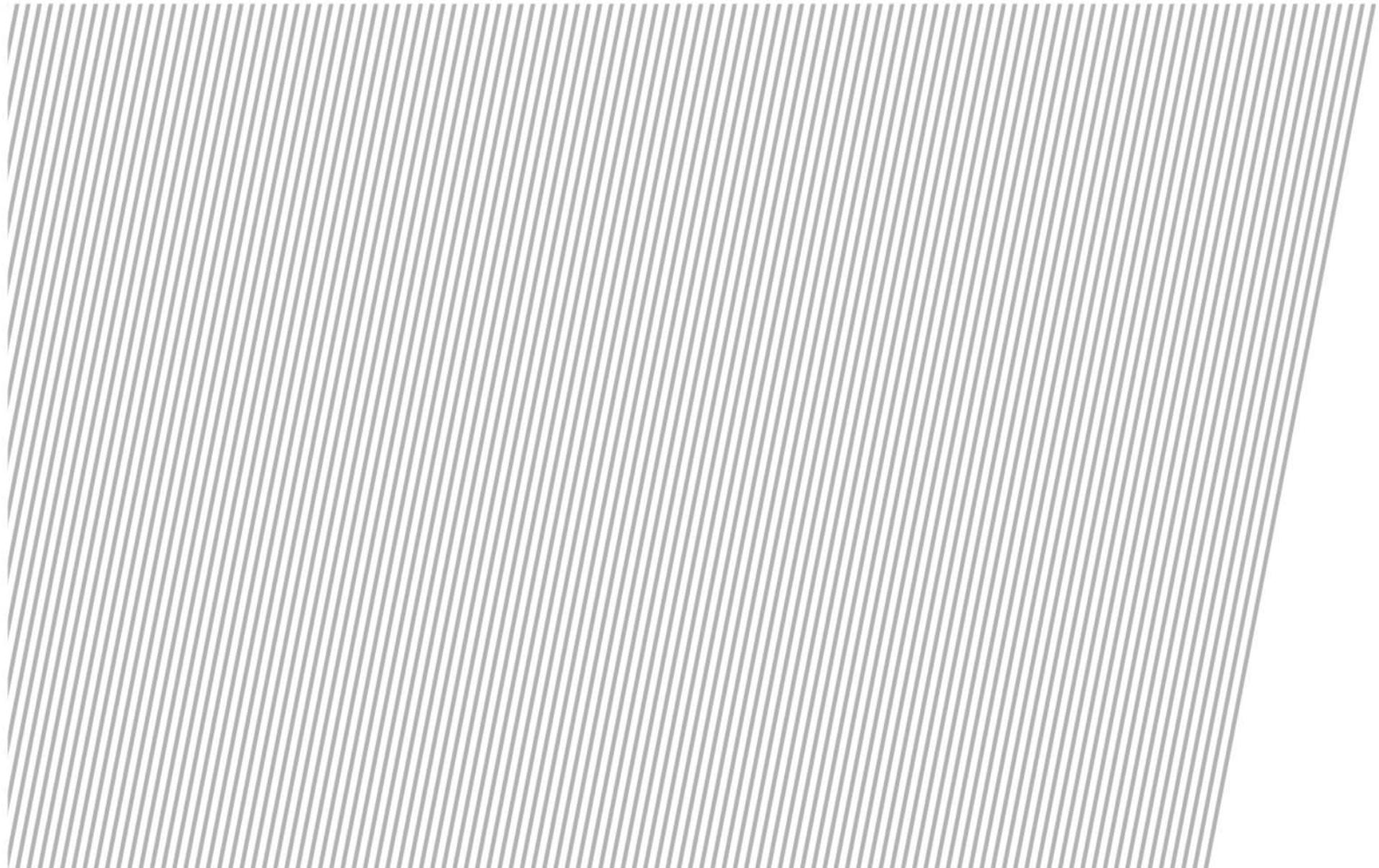
Features of a Roth IRA

Traditional vs. Roth IRA Comparison

Roth IRA Conversions

Factors in Deciding Which IRA to Choose

# Basics of IRA Eligibility



# IRA Eligibility

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Account must be set up with a financial institution

- Bank, Broker, Insurance company, Mutual fund company

Earned income requirement

- Wages
- Self Employment Income
- Alimony

Maximum contribution is the lower of earned income or \$5,000 (\$6,000 if 50 or older)

- Contribution may be made for 2012 up until April 15th 2013

Nonworking spouse may contribute to own IRA based on working spouse's earnings

# Features of a Traditional IRA

# Traditional IRA

Must be under age 70.5 to contribute

Investment earnings in account are tax deferred

May be able to deduct contribution depending on income and retirement plan coverage at work

- 1. No income limit on deduction if neither you or your spouse is covered by a retirement plan at work
- 2. Single phase-out of deduction if covered by a retirement plan at work is \$58,000 - \$68,000
- 3. Married Filing Jointly phase-out of deduction if covered by a retirement plan at work is:
  - Covered spouse \$92,000 - \$112,000
  - Uncovered spouse \$173,000 -\$183,000

No income limit for after-tax/nondeductible contribution

# Traditional IRA

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Distributions are taxed as ordinary income

The portion of a distribution representing previously taxed income will be tax free

- All Traditional, SEP, and Simple IRA's are aggregated for tax purposes

If distributions are taken before age 59.5, there will generally be a 10% penalty in addition to ordinary income tax on the taxable portion

# Traditional IRA

Required minimum distributions must start after attaining age 70.5

- First distribution is required by April 1<sup>st</sup> of the year following the year turning 70.5
- Second distribution is required by December 31<sup>st</sup> of the year following the year turning 70.5
- Additional distributions are required annually every subsequent December 31<sup>st</sup>

First year minimum distributions start at 3.65% (70) or 3.78% (71) and rise every year

Failure to take a minimum distribution will incur a 50% penalty on the shortfall

# Features of a Roth IRA

# Roth IRA

Contribution eligibility is based on income and filing status

- Single phase-out of contribution is \$110,000 - \$125,000
- Married Filing Jointly phase-out of contribution is \$173,000 - \$183,000

No deduction for contribution

Investment earnings in account are tax deferred

Qualified distributions are tax free if the account has been open for at least 5 years and you are:

- 1. At least at 59.5
- 2. Deceased
- 3. Disabled
- 4. First time homebuyer up to \$10,000

# Roth IRA

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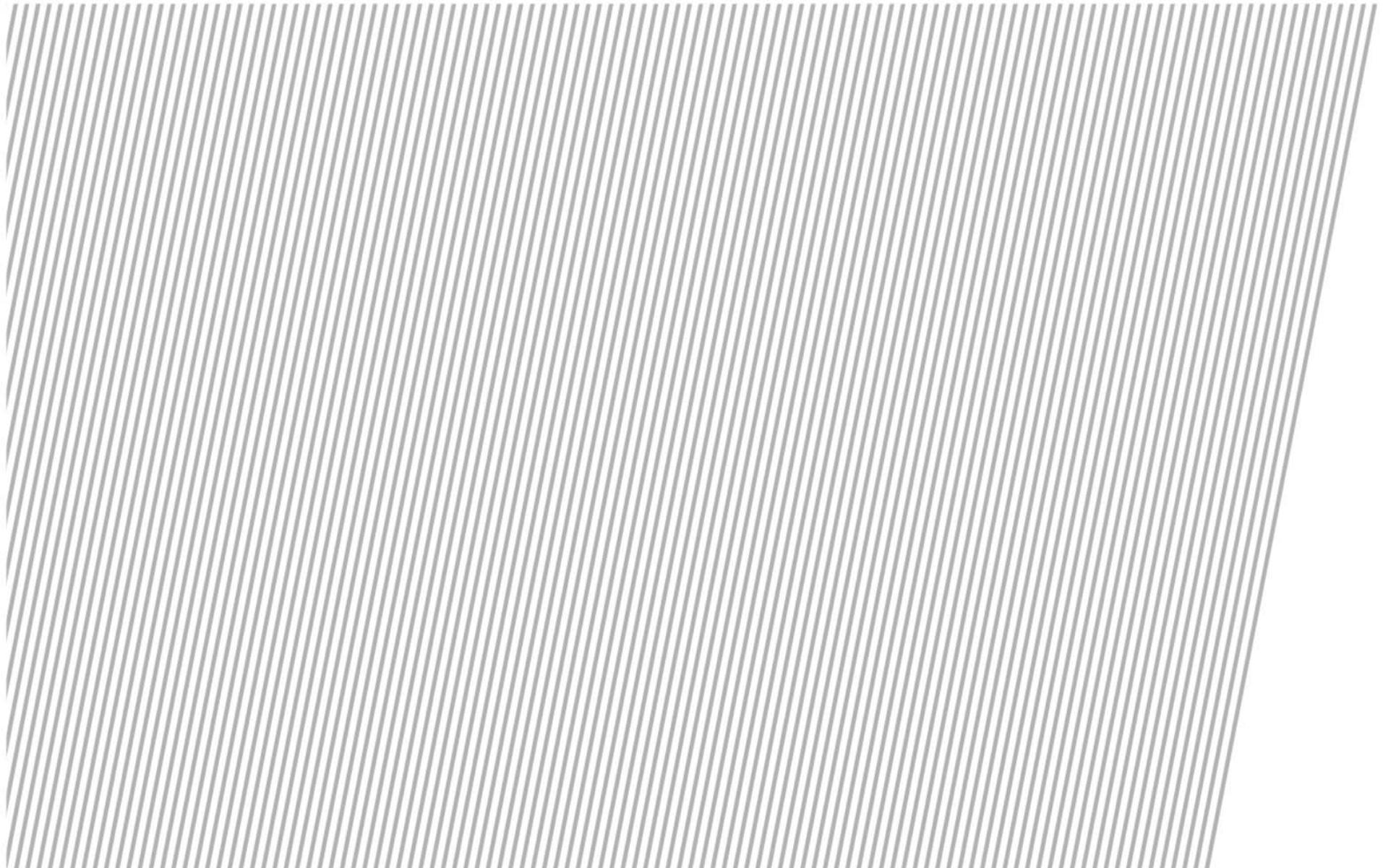
If a distribution is not qualified:

- Contributions may be pulled out first at any time tax and penalty free
- Earnings will be taxed as ordinary income
- Earnings withdrawn before 59.5 will be subject to a 10% penalty unless an exception applies

No required minimum distributions

- Except for non-spouse beneficiaries

# Traditional vs. Roth IRA Comparison



# Comparison - Similarities

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Maximum annual contribution limits

Maximum spousal annual contribution limits

Tax deferral of investment earnings

10% penalty on taxable portion of distribution if under 59.5

10% penalty exceptions if under 59.5

Beneficiary spouse can designate as own at death

Inclusion in gross estate at death

# Comparison - Differences

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Eligibility to make contribution based on income

Potential tax deductibility of contributions

Flexibility of access to funds before 59.5

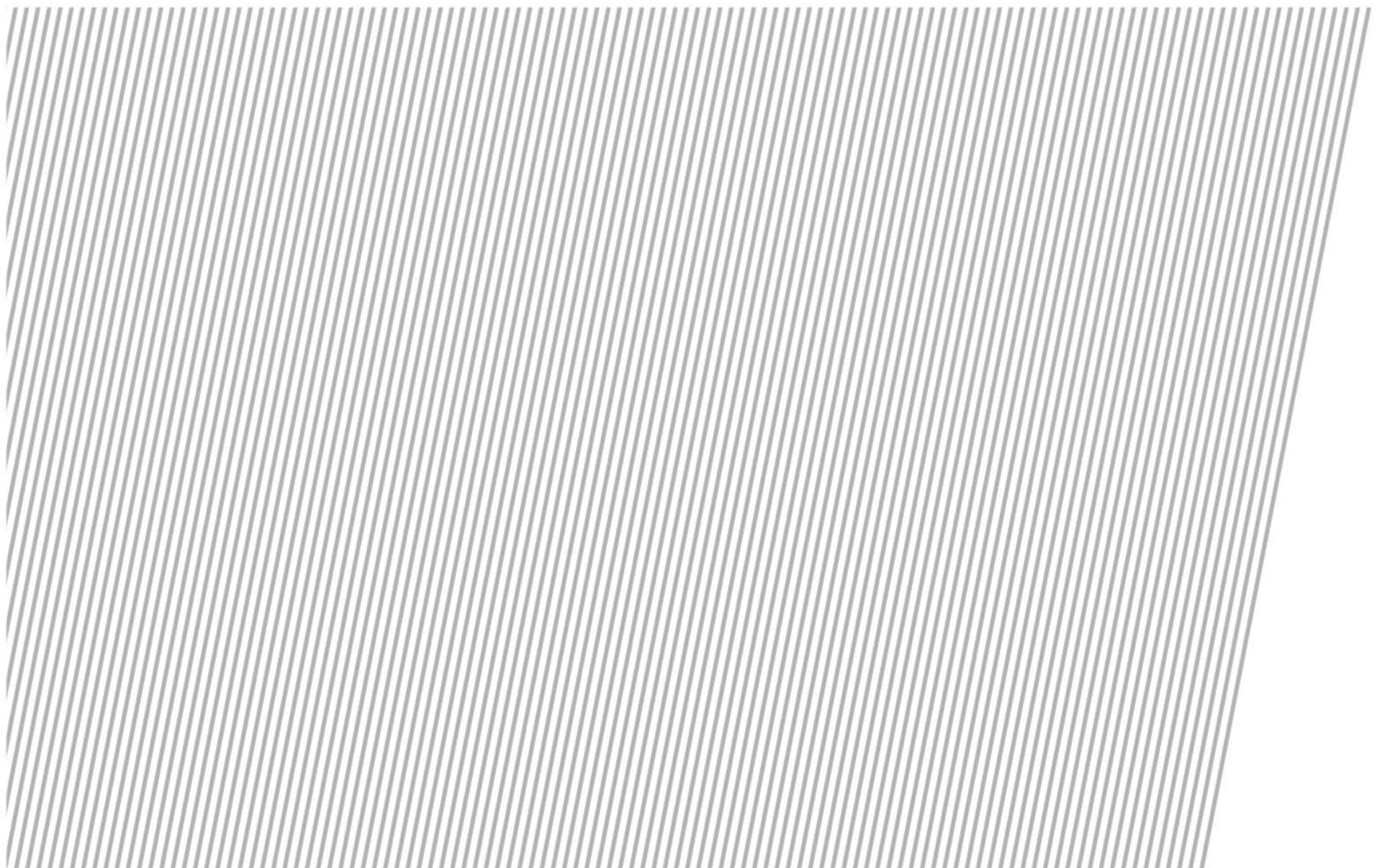
Taxation of deferred earnings upon distribution

Requirement to take minimum distributions

Ability to contribute beyond age 70.5

Taxation of distributions by beneficiaries

# Factors in Deciding Which IRA to Choose



# Factors in Deciding Which IRA to Choose

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Eligibility for a contribution to a Traditional IRA based on age

Eligibility for a deduction to a Traditional IRA based on retirement plan coverage at work

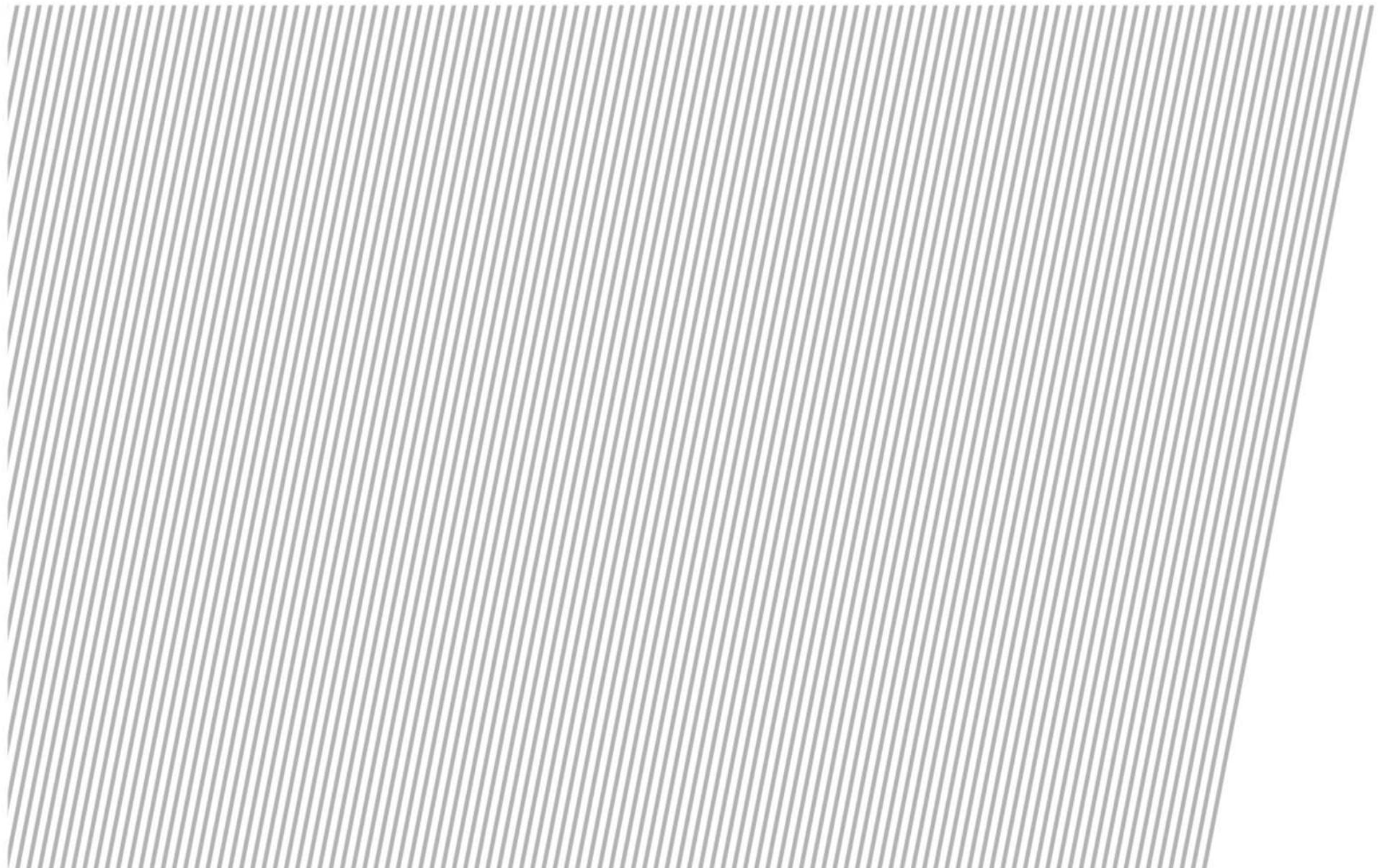
Eligibility to make contributions to Roth IRA based on income

Marginal tax rate currently versus marginal tax rate at time of distribution

Desire to have flexibility to access assets prior to age 59.5

Importance of leaving a potentially tax free legacy to heirs

# Roth IRA Conversions



# Roth IRA Conversions

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May convert Traditional IRAs, qualified distributions from 401(k) plans and other eligible pretax retirement plans

The converted amount is included as ordinary income

- A portion of the conversion may be tax free due to after-tax/nondeductible contributions

After the conversion, the account grows tax-free for those who meet the qualified distribution rules

- Government no longer shares in your investment success

# Roth IRA Conversions

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10% penalty does not apply to the amount converted

10% penalty applies to distributions of amounts previously converted within 5 years before age 59.5

60 day timeline for indirect conversions

May consider a recharacterization if converted amounts decline in value

- Allows you to transfer amount converted back to Traditional IRA and avoid declaring as income
- Generally have until Oct 15<sup>th</sup> of the year following the conversion to “undo”

# Roth IRA Conversions

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You may want to consider a conversion if:

- If you anticipate being in an equal or higher tax bracket at the time of distribution
- If you believe your investment values are depressed and would like future appreciation to be tax-free
- If you are seeking tax diversification and planning flexibility
- If you would like to avoid required minimum distributions starting at age 70.5
- If you do not anticipate needing this money for retirement and will likely be passing these assets to heirs
- If you can pay taxes on the conversion from non-account assets

# Roth IRA Conversions

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You may not want to convert if :

- If you anticipate being in lower tax bracket at the time of distribution
- If you believe your investment values are relatively high and will likely decline
- If required minimum distributions will incur little to no tax
- If you do anticipate needing this money for retirement and will not likely be passing these assets to heirs
- If you do not have cash available to pay the taxes from non-account assets

# Roth IRA Conversions

Strategies which may reduce the taxable portion of your conversion:

If you have mostly after-tax/ nondeductible contributions in your Traditional IRA, you may be able to perform a Roth conversion with little to no taxes

- Even if spouses file a joint return, each spouse's IRA's are aggregated independently for taxation purposes

Defer the rollover of a 401(k) to a Traditional IRA until after the conversion occurs

- The 401(k) is not aggregated with Traditional IRA's for tax purposes

Consider rolling over portion of existing Traditional IRAs to 401(k) to manage the taxable portion of the conversion

- Only pretax amounts can be rolled to a 401(k) from a Traditional IRA

# How can the *EY Financial Planner Line®* help?

Discuss your financial goals with you

Perform a tax withholding analysis

Identify ways to reduce your taxes that are in line with your goals

Assist with medical and other open enrollment decisions

Develop an appropriate asset allocation

Provide cash flow and debt planning

Identify ways to simplify your finances

Review your insurance needs

Assist in the Roth IRA conversion decision

## Action Step

- Visit the EYFPC to locate the phone number to call and speak to an EY financial planner

# Personal action plan

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Action Step	When	Done
<u>Review your financial needs and goals</u>	<u>7 days</u>	<input type="checkbox"/>
<u>Recognize your year-end planning opportunities</u>	<u>10 days</u>	<input type="checkbox"/>
<u>Visit the EYFPC and call the <i>EYFPL</i></u>	<u>14 days</u>	<input type="checkbox"/>
<u>Implement your plan making informed decisions</u>	<u>30 days</u>	<input type="checkbox"/>
<u>Monitor and update your plan</u>	<u>At least annually</u>	<input type="checkbox"/>