

ROTH 401(k) CONVERSION – November 2010

Congress has recently passed a law to allow participants in retirement plans to convert distributable pre-tax money to a post-tax Roth account inside the plan. This gives participants the same option as if they took a distribution from the plan and rolled it to a Roth IRA.

By now, you've all heard that if you do a Roth conversion in 2010, you can spread the taxes on the conversion over 2 years, 2011 and 2012. Until recently, this was only available to IRAs, so we and other pension consultants fought to get this extended to retirement plans. We felt this was important because retirement plans have more protection in general than IRAs, and your participants should have the option to keep their money in the retirement plan framework.

You should discuss with your tax and financial advisors if a Roth conversion is right for you – note that even though the money is staying in the plan, it will be a taxable distribution to you. This decision can have a large impact on your plan, so we invite you to talk to your plan consultant to learn more about these issues. Some of the larger considerations are:

- If you allow the conversions, everyone eligible can do it, too.
- You may have to add a limited in-service withdrawal provision to the plan, which could complicate administration.
- You must be age 59 ½ to convert deferrals, and we recommend requiring full vesting to convert other sources.
- Roth IRAs don't have required minimum distributions.
- IRAs are generally more flexible and allow easier access to the funds.

The biggest issue is that you'll have to allow Roth money and deferrals in the plan. This adds a level of complexity to your plan that we've generally felt causes more trouble than it's worth, though some plans, notably on investment products, make it work.

The IRS has said that they hope to provide applicable amendment language to use in plan documents as soon as possible, given the December 31, 2010 distribution deadline. If this is something you're interested in, we recommend that you start the discussions with your tax and financial advisors and your Creative Pension consultant now so that we can be ready as soon as more guidance is available.

If you decide that opening the plan to Roth isn't right for you, but you still want to take advantage of the special tax treatment and move plan money into a Roth IRA, please call your plan consultant to discuss your options. Again, we recommend that you discuss the ramifications of this with your tax and financial advisors as well.

If you have any questions on this, or any other retirement plan topic, please don't hesitate to contact us. I'm Jerry Noel, and thank you again for working with Creative Pension Consultants.



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