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NEWS

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Understanding Roth IRA Accounts

Local Financial Advisors Helps Investors Make Informed Decision About Rolling Retirement Accounts to Roth IRA

ATLANTA, GA (June 17, 2008) – Although the Roth IRA celebrates its 10th anniversary in 2008, it's still underused relative to traditional IRAs, according to financial professional Don Patrick, Managing Director of Integrated Financial Group. A May 2008 report by the Employee Benefit Research Institute (EBRI) revealed that of the \$2.5 trillion invested in individual retirement accounts in 2002, \$2.3 trillion was in traditional IRAs, representing more than 90 percent of all IRA assets. Roth IRAs accounted for just over 3 percent of all IRA assets.

“The fact is that for many investors, the Roth’s income limits present a stumbling block,” says Patrick. “In 2008 only those married filers with modified adjusted gross income below \$169,000 (\$116,000 for single) could make deposits into a self-directed Roth IRA. And even if you met the criteria, the maximum contribution is \$5,000 or \$6,000 for those over age 50.”

However, if you’ve given up on the idea of getting money into a tax-free Roth, think again.

Although income levels may prevent opening a Roth IRA, there are a growing number of companies that offer Roth 401(k) investment plans to employees. Through these plans, employees, regardless of adjusted gross income, can choose to make Roth 401(k) contributions.

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Interestingly, however, among plans offering Roth accounts, just 8 percent of eligible employees made Roth contributions in 2006.

According to Patrick, there are several reasons for choosing to enroll in a Roth IRA plan if eligible. “Your current 401(k) contributions are made with pre-tax dollars and will be taxed at your ordinary income tax rate at withdrawal whereas the Roth 401(k) accepts only after-tax contributions,” says Patrick. “As with the Roth IRA, your money grows and is distributed tax-free. If you squirrel away \$50,000 over your working career, every penny – the principal and potential earnings – is yours free and clear after age 59 ½.”

That tax-free feature has wide appeal. If an investor is a high wage earner who always has contributed the maximum to a 401(k) plan, they’ve probably built a sizable tax-deferred nest egg. They could benefit from a Roth 401(k) just for the sake of diversification. On the other hand, Patrick suggests that if an investor is early in his or her career and in the 10% tax bracket, it may make sense to pay taxes now on your 401(k) contributions so that your withdrawals in future years, when you likely will be in a higher income tax bracket, will be tax-free.

It is possible to divide contributions between a traditional 401(k) and the Roth 401(k), Patrick says. “And if you are lucky enough to have an employer who matches your contributions, those funds will be placed in a traditional 401(k) plan since they are tax-deductible for your employer. This means that even if you put 100% of your contributions into the Roth 401(k), you also will have assets in your plan that will be taxed upon withdrawal.”

Currently, investors have to have a modified adjusted gross income (MAGI), individual or joint, under \$100,000 in order to roll over from a traditional IRA to a Roth IRA. But after 2010 investors can convert traditional IRA to a Roth IRA, regardless of income or filing status.

Regardless of whether the conversion happens before or after 2010, there is not the 10 percent pre-59½ withdrawal penalty but investors will still have to pay taxes on the converted amounts.

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“If you plan to take advantage of the lifting of income restrictions to get some of your assets into a tax-free Roth account, it may make sense to begin setting money aside now to pay the inevitable taxes,” says Patrick. “If you choose to convert in 2010 when the \$100,000 MAGI limits are first lifted, you can spread your ensuing tax bill out over 2011 and 2012.”

According to Patrick, there is another important change with Roths that doesn't require investors to wait until 2010. As of the start of 2008, investors are allowed to roll employer retirement funds directly to a Roth IRA eliminating the need to move qualified plan funds to an IRA before converting the assets into a Roth as was the case with the Pension Protection Act. Of course, while the rollover is permitted between employer plans such as 401(k)s, 403(b)s, and 457s to Roth IRAs, keep in mind that between now and Jan. 1, 2010, you still must have a modified adjusted gross income (individual or joint) under \$100,000 to be eligible to make the move. What's more, your employer's 401(k) plan must permit direct rollovers.

“The great news here is that the 10 percent early withdrawal penalty will not apply to these rollovers,” says Patrick. “But, as with conversions of traditional IRAs to Roth IRAs, if you take a premature distribution from the Roth IRA within five years of the rollover, the 10 percent penalty will apply to the amount of the distribution.”

All rollovers from qualified plans should be done carefully to avoid any unintended tax consequences. “It is important to coordinate with your tax advisor for the latest IRS rulings and specific tax advice, and work with your employer and trusted financial advisor to ensure that you are thinking through the entire process,” says Patrick.

“Diversification is so important when performing a rollover. Diversifying between taxable and non-taxable retirement savings accounts is a reasonable way to hedge against the unknown.” With Roths, there is no requirement that distribution must begin at age 70½ as with traditional IRAs and other tax-deferred investment vehicles. As such, investors may be able to realize decades more of tax-free growth on invested money that could benefit heirs.

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“As an added bonus, if you do decide to take distributions from your Roth, those assets aren’t figured into ‘combined income’ formula that determines whether Social Security is taxable,” says Patrick. “As such, Roths can significantly increase your flexibility in the distribution planning phase of retirement.”

About Don Patrick and Integrated Financial Group

Don Patrick, Managing Director of Integrated Financial Group in Atlanta, Georgia, has been serving clients as a financial advisor for over 26 years. Patrick earned his MBA from the University of Southern California. Undergraduate studies were completed at Loyola University Los Angeles in the areas of finance and economics. He served as a pilot in the U.S. Air Force, graduating first in his class. He is also a member of the Financial Planning Association, the nation’s largest organization of professionals dedicated to championing the financial planning process. He has completed additional studies and passed a rigorous certification examination and is authorized to use the CFP® mark of distinction. Integrated Financial Group, an independent financial planning consortium of advisors, delivers practical, effective financial solutions aimed at addressing the long-term financial planning needs of their clients.

For five years listeners in south Florida relied on Patrick to deliver sound, accurate financial advice as co-host of a radio talk program. He taught financial planning at Georgia State, North Metro Technical College and Gwinnett Technical College. Listed in Who’s Who of Investment Management Consultants, Patrick recently authored a book titled *Keep Your Nest Egg from Cracking – What You Need to Know*. He is also a regular contributor to numerous financial trade and consumer publications, including Wall Street Journal, Kiplinger's Retirement Report, New York Daily News, Investment News and Research magazine.

Visit www.integrated-financial-group.com for more information about Mr. Patrick and the consortium of advisors.

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