Roth IRA Conversion

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Could a Roth IRA Conversion be right for you?

At Fidelity, we believe most investors should consider including a Roth IRA as part of their overall retirement savings plan. If you have already started saving with another retirement account, converting to a Roth IRA has the potential to help minimize taxes and maximize retirement savings.

Three key factors to consider when determining if converting may be right for you:

1. Taxes—If you anticipate being in a higher federal tax bracket* in retirement, or plan to leave your savings to your heirs, you might want to consider a Roth conversion. You may pay lower taxes now with a conversion than if you wait until retirement to begin taking taxable withdrawals.
2. Time—The relative benefits of conversion will increase the longer your money remains in the Roth IRA. Generally, conversion may not make sense if your time horizon is less than five years, as amounts withdrawn would be subject to a 10% penalty.
3. Cost—Can you pay the taxes you'll owe with cash or nonretirement savings? If not, the costs of converting may outweigh the potential benefits.

The decision to convert needs to be made with care and should include a consultation with your tax advisor.

Answers to frequently asked questions about a Roth IRA Conversion

Am I eligible to convert?

As of January 2010, most investors are now eligible to convert non-Roth retirement savings to a Roth IRA regardless of income limits. Prior to 2010, only those investors who had a modified adjusted gross income (MAGI) of $100,000 or less[1] were eligible. Keep in mind, the deadline for converting to a Roth IRA in the current year is December 31 and income restrictions on Roth IRA contributions will still apply.

What types of accounts can I convert or roll over to a Roth IRA?

You may be able to convert the following account types:

- Traditional IRA
- Rollover IRA
- SEP-IRA
- SIMPLE IRA[2]
- SAR-SEP IRA
- An old 401(k)
- An old 403(b)
- An old governmental 457(b)

What are the potential tax implications of converting?

You'll generally owe taxes on the amount that's converted. But, unlike traditional IRA or workplace plan withdrawals before age 59½, there's no penalty imposed on the conversion.[3,4] And, while a conversion requires you to pay income tax on all pretax contributions and earnings included in the amount you convert, it provides the opportunity for federal tax-free growth on any subsequent Roth IRA earnings and withdrawals if certain conditions are met.[3]

What is the special 2010 tax-deferral opportunity?

If you convert in 2010, you can choose to spread the tax liability equally over two years—2011 and 2012—instead of paying the taxes in full when you file your 2010 returns.

*Additional state tax implications may apply.

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How much should I consider converting?

If you decide conversion is right for you, an important consideration in determining how much to convert is how much money you have in nonretirement accounts. Using this money to pay the taxes you will owe, instead of using the proceeds from the conversion, may help you minimize the total cost of conversion and help maximize the amount you keep in retirement savings. Plus, if you are under age 59½, using funds from your retirement account could result in an additional 10% tax penalty, which may significantly reduce the potential benefit of a conversion.

Since the pretax amount you convert will add to your current income for tax purposes, you may also want to consider converting portions of your other retirement accounts to a Roth IRA over a number of years (tax periods) in amounts that will keep you within your current tax bracket, or within one you can afford.

Can I roll over an old workplace savings account directly to a Roth IRA?

Yes. If you qualify, you can choose to roll over an eligible distribution from an old workplace savings plan (e.g., 401(k)) directly to a Roth IRA—eliminating the need to roll into a traditional or rollover IRA and then convert to a Roth IRA. Similar to converting to a Roth IRA, you'll owe taxes on the amount of pretax assets you directly roll over. *Note:* If you have assets in a designated Roth account (e.g., Roth 401(k)) and would like to roll these into an IRA, you can only do so into a Roth IRA.

Can I change my mind?

Yes, but only for a limited amount of time. One of the features of a Roth IRA is the ability to recharacterize (revert) into a traditional IRA if your situation changes. For example:

- Your Roth IRA investments have lost value since you converted
- Your taxable income is higher than you expected
- The additional taxable income from converting a traditional IRA to a Roth IRA puts you in a higher federal tax bracket
- You won't have enough money to cover your tax bill

Keep in mind that the deadline for completing a recharacterization is the last date to file your prior-year taxes, inclusive of extensions—usually by October 15.

Should you convert to a Roth IRA? We can help you decide.

Call 800.FIDELITY to speak with a Fidelity Representative.

Investing involves risk, including risk of loss.

The tax information contained herein is general in nature, is provided for informational purposes only, and should not be construed as legal or tax advice. Fidelity does not provide legal or tax advice. Always consult an attorney or tax professional regarding your specific legal or tax situation and to more fully understand the regulations surrounding conversions.

[1] Converted amounts are not included in your modified adjusted gross income (MAGI) when determining eligibility. If you are married filing jointly or single, prior to 2010 your MAGI cannot exceed $100,000 in the year you convert. If you are married filing separately, you are not eligible to convert unless you have lived apart from your spouse for the entire taxable year.

[2] An early distribution tax penalty may apply if the two-year holding period is not met.

[3] A distribution from a Roth IRA is tax free and penalty free provided that the five-year aging requirement has been satisfied and at least one of the following conditions have been met: you reach age 59½, suffer a disability, make a qualified first-time home purchase, or die.

[4] Withdrawals before age 59½ may be subject to a 10% early withdrawal penalty.

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