



ED SLOTT'S IRA ADVISOR

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TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

New Roth 401(k) Conversion Opportunities

The Small Business Jobs Act of 2010

The Small Business Jobs Act of 2010, signed into law by the President on September 27, 2010 includes a provision that allows certain 401(k) and 403(b) plan participants to convert their plan funds to a Roth 401(k) or Roth 403(b) within the plan. Not all employees are eligible though.

The new provision is effective as of September 27, 2010, the date of enactment. Previously, a plan participant could not convert a 401(k) balance to a Roth 401(k) within the plan. In order to convert, the employee had to move the funds out of the plan and convert them to a Roth IRA. In addition, beginning in 2011, the new law allows Section 457 plans to include a Roth 457 option.

Certain Retirement Plan Funds may be Converted to Designated Roth Accounts at the Plan

401(k) and 403(b) plan participants may now do rollovers (conversions) of their plan assets into designated Roth [Roth 401(k) or Roth 403(b)] accounts. Sure, that sounds great, but it's not quite the opportunity it may seem at first glance. There are three hurdles your

clients must pass in order to take advantage of this provision.

Before we even get to the hurdles, remember that the first hurdle is the income tax cost. Any employee who converts will owe income tax on pre-tax funds converted. So you still need to have the Roth conversion conversation with clients to see if a full or partial conversion is right for them.

For the clients who make it over each of the three hurdles and whose plans adopt the plan level conversion provision soon enough, conversions in 2010 will be eligible for the same tax treatment as IRA conversions made to a Roth IRA in 2010. Clients will be able to split the income from the conversion equally over 2011 and 2012, or if they wish, they can opt to include all of the income from the conversion in 2010.

401(k) and 403(b) plan participants may now do conversions of their plan assets into designated Roth [Roth 401(k) or Roth 403(b)] accounts.

Three Hurdles

1. Does the Plan Offer a Roth Option?

For starters, your client's 401(k) or 403(b) plan has to offer a designated Roth account as an option. That could knock out a good portion of your clients. The Roth 401(k) option was created by the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in 2001,

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