Money Matters

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Traditional IRAs on Trial

Have you been lead astray?

Over Simplifying?

Many investors hold fast to the false representation that Roth IRAs only make sense if you expect your income to increase over time – suggesting that most taxpayer's incomes will continually decrease during retirement, and therefore would not encourage a Roth. However this overly simplistic rational ignores considerable destructive factors for traditional IRAs and could save significant tax dollars and flexibility in the long run.

What are the differences between a traditional IRA and Roth IRA? Consider the following chart:

	Traditional IRA	Roth IRA
Will I receive a tax deduction for contributing?	Yes	No
At what age can I make a withdrawal and not incur a 10% tax penalty?	59 1/2	Distributions of ***contributions*** can be made ***at any age*** with no adverse tax consequences*
Are withdrawals taxed as ordinary income?	Yes	No**
At what age will I be ***required*** to make annual withdrawals?	70 1/2	Never
After my death, will my beneficiaries be required to make annual withdrawals?	Yes	Yes
Will my beneficiaries required withdrawals be taxable?	Yes	No

*Different rules apply to funds that have been converted.
**Withdrawals made over the age of 59 1/2 are completely tax-free. Before the age of 59 1/2, earnings could be subject to penalties and/or ordinary income tax.

The assumption made above that *'Roth IRAs only makes sense if you expect your income to increase over time'* is flawed because all withdrawals from a traditional IRA, which will eventually be required, are fully taxable – increasing your income! Roth IRA withdrawals are completely tax-free and therefore do not increase taxable income during retirement. Because of the fact that traditional IRAs *require* taxable distributions, participating in one guarantees an increase in future income. It is clear that this question is misleading and ultimately the decision between a traditional IRA and a Roth IRA is much more complex than most investors are led to believe.

Traditional IRAs Hazardous Combination

There are however two often overlooked characteristics that traditional IRAs exhibit, which if understood, would persuade most investors to opt for the Roth IRA. The biggest disadvantage of a traditional IRA is the required distributions that begin at the age of 70½ coupled with the taxable nature of these withdrawals. This combination can be detrimental - forcing investors to pull funds, incurring a tax bill, and losing tax-deferred shelter for any amounts above required living expenses. Investors who have the bulk of their retirement assets held in tax-deferred accounts such as IRAs or 401(k)s are most prone to this damaging situation.

Affects on Social Security Taxation

Another unnoticed tax consequence from traditional IRAs is the possible increase in the level in which social security benefits are taxed. Depending upon taxable income, social security benefits are tax-free or partially taxed at a 50% or 85% level. For low to mid-income retirees (where these breaks can be taken advantage of) the difference between having 0%, 50% or 85% of benefits taxed can substantially change how much is paid to Uncle Sam – traditional IRAs taxable and required withdrawals will exacerbate this problem.

Minimize Withdrawal Restrictions

Flexibility regarding withdrawals prior to age 59½ in Roth IRAs is no small benefit. Yes, the Roth's sole purpose is to provide an extraordinary means to save for retirement. However, life is life and

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sometimes it doesn't always go as planned. If or when something of unplanned, significant concern does come up, how much less stressful will the situation be when you find out you don't have to pay income tax or a 10% penalty on contributions that you have made to the Roth? During tumultuous times, avoiding costs can reduce anxiety involved in the situation.

Diversifying Income Sources
Adding a Roth IRA to a nest egg also provides tremendous advantages once retired and on a fixed income. When economic trouble lurks, retirees are the most vulnerable. During times like the past two year with account values plunging and low interest rates, withdrawals must be minimized from any type of account. However, when a retiree's only option is to make taxable distributions from an IRA, usually it forces the retiree to pull more funds in order to foot the tax bill. If the retiree had diversified their nest egg with a Roth IRA, they would have had a tax-free income source option.

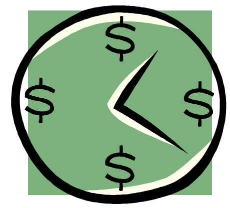
Everyone Qualifies
Usually Roth IRAs restrict high income earners from being able to participate through annual contributions or conversions (see chart below). A conversion is a taxable process where a specific dollar amount transfers from an IRA to a Roth account (**please speak to a tax professional for advise regarding how much to convert as it is a taxable event*). However, next year investors who do not qualify based upon the current levels will have the opportunity to convert IRA assets to a Roth IRA in 2010. Those who take advantage of this offering will have the *option* to pay 50% of the tax bill in their 2011 and 2012 tax return. Keep in mind, taxpayers who opt for paying the taxes later will be subject to those future tax rates.

Participation Type *2009 contribution limits*	Single Filer	Married, Filing Jointly
Eligible to make full annual contribution *$5,000 ($6,000 for 50+)*	$105,000	$166,000
Eligible to convert funds to a Roth IRA *Unlimited -seek professional tax advice*	$100,000	$100,000

Prime Time
The best time to do a Roth conversion is when IRA values are low. Unlike retirement contributions that must be made in cash, conversions can be done using investment shares thus avoiding selling stocks or mutual funds in the IRA. A market fall that decreases these values provides an opportunity to convert, and pay taxes on an investment that was worth possibly 25% or more two years before. In other words, converting one share of Citigroup that was nearly $55 a nearly two years ago that is currently worth a slightly over $4 can save $51 in taxable income!

Before Converting
Taxpayers under the age of 59½ must be able to pay the associated taxes generated from a Roth conversion when they file their return. Any amounts withheld from conversions to pay taxes will be subject to the 10% early withdrawal penalty.

Do It Now
If you meet the 2009 qualifications, you have until December 31, 2009 to convert to a Roth IRA or April 15, 2010 to make a contribution.



Due to higher than usual demand, Charles Schwab and TD Ameritrade are anticipating a slightly longer processing time for conversions during year-end and tax season, therefore, we encourage clients to plan accordingly.

Taking advantage of a Roth Conversion is as easy as filling out the following documents:

1. If you <u>do not</u> already have a Roth IRA account, you will need an IRA Application to open a Roth account;
2. If you have a traditional IRA or 401k that you would like to convert to a Roth IRA you will need an Account Transfer Form and a current account statement to transfer the assets that you would like to convert;
3. An IRA Distribution Form is necessary to convert assets from a traditional IRA to a Roth.

If you would like to make a contribution to a Roth account and meet the income requirements:

1. If you do not already have a Roth IRA account, you will need an IRA Application to open a Roth account;
2. Make a check payable to Charles Schwab or TD Ameritrade (see chart for 2009 contribution limits) and mail it to Marathon!

The best compliment Marathon can receive is a referral from you!

Thank you for your business.