

# Investment Time

## Should You Convert to a Roth IRA? (Part 4)



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by Samuel N. Asare, MBA, CRPC, CMFC  
We can now firmly tell you that this will be a 5-part series on converting to a Roth IRA. Our goal is to explain the essential points that you, as an investor, must understand and consider as you decide whether or not converting to a Roth IRA will benefit you and your family. Today, we will further discuss the tax implications surrounding these conversions.

### Can I undo a Roth conversion?

Yes, it is possible to undo a Roth conversion through something called a "recharacterization," which is essentially a "reconversion" to qualified status. Typically, you have until October 15 of the year after a conversion to do a recharacterization.

So if Vickie converted her traditional IRA to a Roth IRA on January 5, 2010, she has until October 15, 2011 to change her mind and undo it.

### Will I incur a 10% "early withdrawal" penalty by converting my qualified funds if I am younger than 59½?

Converting to a Roth IRA grants you an exception to the 10 percent early withdrawal penalty rule. That is, unless you withdraw funds from your existing qualified plan to pay the taxes on a conversion, which is considered a distribution and will, therefore, incur income tax plus a 10 percent penalty if you are younger than 59½.

Let's say Ted is 55 years old and has \$150,000 in a 403(b) from his previous employer. If he converts the entire amount to a Roth IRA, he'll owe income tax but have to pay no penalties, even though he's not yet 59½.

However, if Ted were to convert only \$100,000 and withdrew the remaining \$50,000 to pay the taxes due, he would owe income tax on the entire \$150,000. In addition, he'd have to pay the 10 percent penalty on the \$50,000 because that would be considered a distribution, not a conversion.

### After converting to a Roth IRA, do all withdrawals automatically become income-tax free?

It is critical that you pay very close attention to the various situations we describe here, as we have noticed and encountered a great deal of misinformation in this area.

• Regardless of your age, you may withdraw your

principal — the initial after-tax funds that went into the Roth account — anytime, without an income-tax hit or a penalty.

• However, regardless of your age, you will be taxed on any gains you withdraw within the first five years of the conversion.

• If you are younger than age 59½, you will also pay an additional 10 percent penalty tax on any such gains that you withdraw within the first five years of the conversion, except in the case of certain specifically allowable exceptions.

• Once the converted funds have been held in the Roth IRA for more than five years and you are older than age 59½, all the gains in the account become income-tax and penalty free. Yeah — finally!

• Note, however, that even if you have held the account for more than five years but are younger than 59½ years, your gains will be taxed in addition to the 10 percent penalty, except in the case of certain specifically allowable exceptions.

### What Are the Specifically Allowable Exceptions?

Generally, when funds are accessed in any of the following instances, they are considered exceptions:

- Death or disability of the owner
- Medical expenses
- Health insurance premiums for the unemployed
- Qualified higher education expenses
- Qualified first-time home purchase
- Substantially equal periodic payments
- IRS levy

In such instances, the 10 percent penalty tax is waived. However, the income-tax on the gains is not waived except in the case of the death/disability of the account owner OR for a qualified first-time home purchase and the account has been held for more than five years.

In the final part in this series, we'll offer our professional opinion on whether or not you should convert to a Roth IRA, so we're sure you won't want to miss that!

Interested in converting your IRA/401(k) with little or possibly no tax consequences? Or do you simply need some advice deciding whether it even makes sense for you to consider a Roth conversion? Please call (301) 949-4449 begin\_of\_the\_skype\_highlighting or visit [www.LaserFG.com](http://www.LaserFG.com) to schedule your free, no-obligation consultation today!

A senior financial strategist with Laser Financial Group, Samuel is an accomplished personal finance expert, a Chartered Retirement Planning Counselor, and author with years of experience in retirement-tax planning. He regularly contributes to and is featured by various media outlets, including TV and radio.

# Community Foundation Announces New Fund in Memory of Sgt. David J. Smith

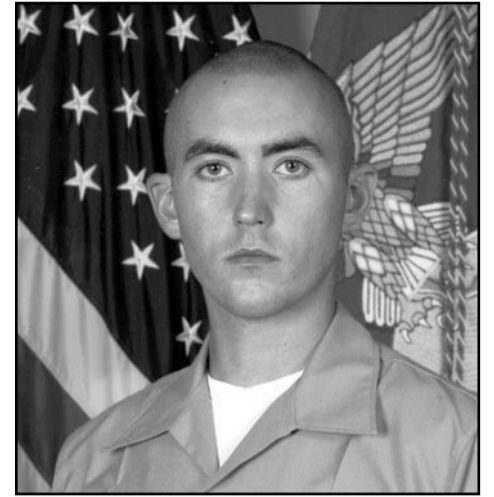
Frederick, MD — JUNE 11, 2010: The Community Foundation has announced The Sgt. David J. Smith Memorial Scholarship Fund, established by his parents and step-parents to honor his memory.

Sgt. Smith, a member of the United States Marine Corps, was deployed to Afghanistan in October, 2009. He was killed in the line of duty in the Helmund Province in January, 2010. His first tour of duty was in Iraq in 2006-2007, with the 4th LAR BN, Bravo Company of Frederick, Maryland. Sgt. Smith was raised in Frederick and was an enthusiastic athlete from a young age, participating in wrestling, playing basketball, lacrosse, football, soccer and golf. In addition to sports, Sgt. Smith was involved in theatre and student government. After graduating from Frederick High School, he attended Salisbury University. In 2003, he joined the Marine Corps, and later attended East Carolina University. Sgt. Smith was a Marine and a patriot, and was honored and proud to serve his country. His family and friends remember him as a loving and caring person with an infectious laugh and great sense of humor.

The Sgt. David J. Smith Memorial Scholarship will be awarded to Frederick High School graduating seniors who show leadership qualities, have an outstanding community service record, are active in their faith, and display a strong sense of patriotism. The first scholarship from the Fund will be awarded in the 2011-2012 academic year.

"David loved Frederick High School" said Mary Jane McWilliams, David's mother. "During his four years there, Frederick High prepared him well for the future he hoped to have. Through his active school involvement and wonderful group of friends who were so important to him, David came away enriched from those experiences. Knowing how he felt about Frederick High School, my family and I want to honor his memory by awarding this scholarship to a student who exemplifies the caring, strength of spirit and devotion of David Smith."

Those who wish to benefit The Sgt. David J. Smith Memorial Scholarship Fund can make a secure, online do-



nation at [www.cffredco.org](http://www.cffredco.org) and clicking on "Contribute" in the upper right hand corner. Checks made payable to The Community Foundation of Frederick County may be mailed to 312 East Church Street, Frederick, Maryland, 21701, with the name of the fund on the memo line. All donations are tax deductible to the fullest extent of the law.

Memorial funds are one of the many ways The Community Foundation of Frederick County transforms the unique charitable dreams of individuals, families and organizations into the reality of charitable funds supporting a range of worthy causes. Over one-fourth of the funds held by the Community Foundation honor the memories of deceased loved ones by continuing to touch lives in meaningful ways in their names. To date, the Community Foundation has provided more than \$23 million in scholarships and grants throughout Frederick County. For additional information about the Community Foundation, visit [www.cffredco.org](http://www.cffredco.org) or call 301.695.7660.

## Check us out at [www.thurmonttimes.com](http://www.thurmonttimes.com)

Newsletter from.....

*Thurmont Kountry Kitchen*

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Monday .....	Omelet night \$6.99
Tuesday .....	Crab Cake Sandwich Veg. \$7.99
Wednesday .....	Mini Seafood Platter \$9.99
Thursday.....	Shrimp Basket w/2 sides \$6.99

(Above Specials served 4-9 p.m.)



**Wed. Night**  
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### Back Dining Room Now Open

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Will open for private parties of 10 or more  
Call 301-271-4071 for reservations.



### It's Picnic Time!

Think of the Thurmont Kountry Kitchen for  
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Salad, Pepper Slaw, Pies, Cakes and More!

Remember Rubes Crab Shack is next door

# The Mayor's 4th Annual BACKYARD BAR-B-Q COMPETITION



## Join Us August 1<sup>st</sup>, 2010

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Competitors Required to:  
(Food Provided)

- Cook 25 Chicken Quarters
- Cook Baked Beans
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## Everyone Welcome!

**ALL FOOD PROVIDED**  
**You don't have to be a Pro to compete!**

Registration deadline  
July 9<sup>th</sup>, 2010  
Registration Fee:  
**\$15.00**



Contact Mayor Jim Hoover at 301-447-2140 for more information.

