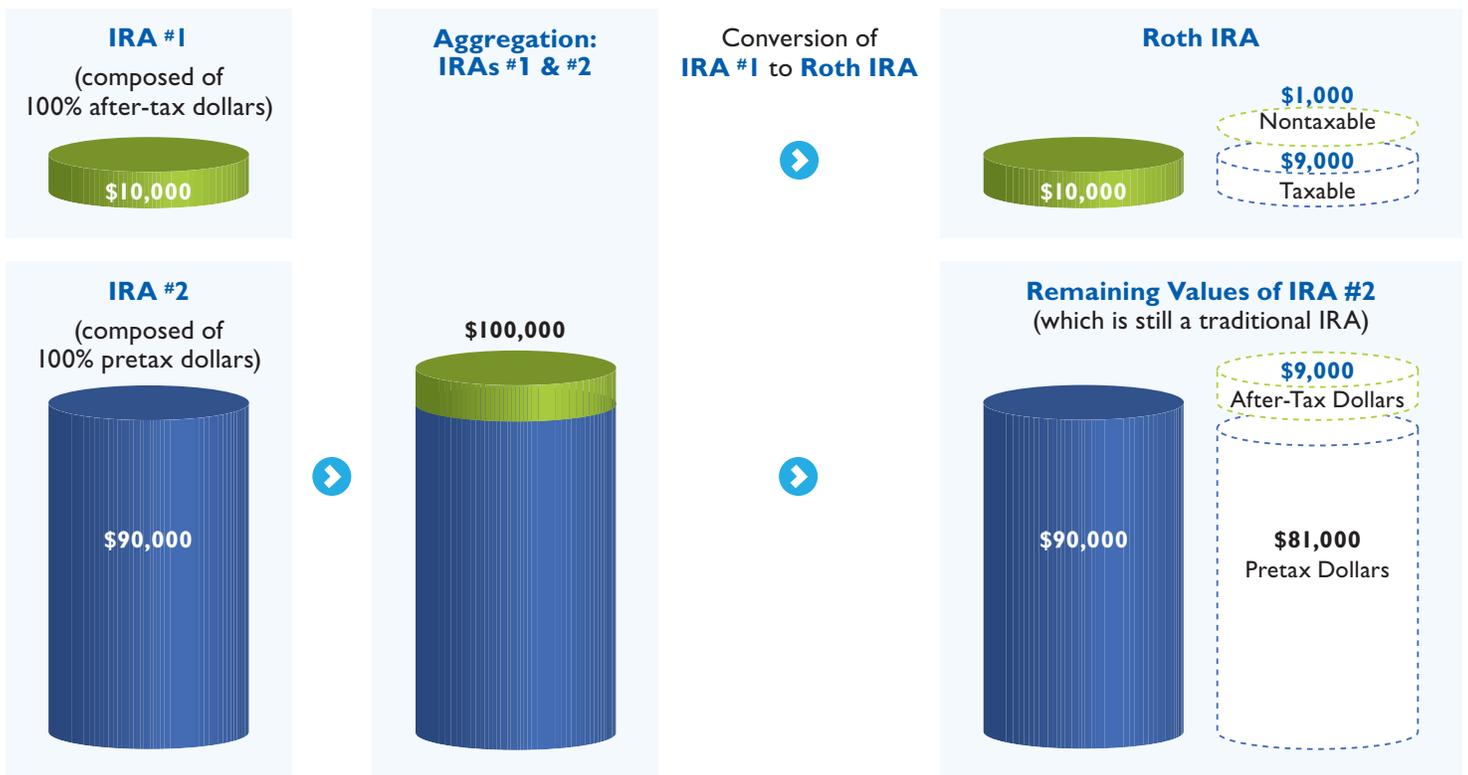


## ROTH IRA CONVERSIONS

### The Aggregation Rule

In a perfect world, an IRA owner would be able to pick and choose whether to convert his or her pretax or after-tax IRA to a Roth IRA. So, while it may be tempting to want to avoid paying income taxes by converting only the after-tax IRA and leaving the pretax IRA intact, that option is not available. When converting to a Roth IRA, the taxpayer must aggregate all IRAs (including SEP and SIMPLE). The income tax paid at conversion is calculated as a percentage of the aggregated IRAs. Following is an example of how a Roth IRA conversion could work:



Here's how the math works on the conversion of IRA #1 (\$10,000) to a Roth IRA.

$$\frac{\text{After-Tax IRA } (\$10,000)}{\text{Total IRAs \#1 \& \#2 } (\$100,000)} = \text{Percentage of any conversion that will not be subject to income taxation (10\%)} \quad \$10,000 \times 10\% = \$1,000 \text{ nontaxable (total conversion amount)}$$

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## Another Option

For IRA owners who are still working for an employer with a retirement plan that accepts rollovers, the owner can roll the pretax IRA to the employer plan before the conversion. This leaves only the after-tax IRA available for conversion (the after-tax portion cannot be rolled into the employer plan). In this case, the year following the conversion, the owner may be able to roll the pretax contributions from the employer plan back to an IRA. Please check with the employer for plan-specific operating rules.

## Identifying Clients

Key characteristics of clients who may be interested in Roth IRA conversions include those:

- Concerned about future income-tax rates.
- Previously unable to open a Roth IRA because of income limits for Roth IRA contributions.
- Holding money in a former employer's 401(k) plan.
- Working to avoid taking required minimum distributions (RMDs) by converting to a Roth IRA.

Clients should consult with a tax advisor regarding their specific situations before making any decisions.

For more detailed information and tools regarding Roth IRA conversion strategies, contact the Advanced Marketing Group at:

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[www.PacificLife.com](http://www.PacificLife.com)

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