



From the Desk of . . . .

## Chuck Testino

As we head into another year, I am always in reflection of the one behind, and in anticipation of the one ahead. As you know, life is always in a state of transition, therefore it is important to stay on top of things and evaluate these changes.



This year brings some changes in the tax laws, which I will want to review with each of you. While making changes may not be appropriate for everyone, most will find a benefit to the strategies we can use to handle tax and long term care costs. Included in this newsletter is information to educate you on the basics of the rules for the traditional to Roth IRA conversions available only this year and how those may affect you. As we head into this wonderful New Year, I wish each and every one of you "Joy, Peace and Happiness."



### 2010 Roth IRA Conversions Advantages of Conversion

2010 offers a change in the Tax Increase Prevention and Reconciliation Act that could benefit you. This tax law was enacted in 2005 and offered some individuals the option to convert Traditional pre-tax IRA's into Roth post-tax IRA's. This year, however, the restrictions on who can convert Traditional IRA's, 403(b), 457 and other qualified plans to Roth IRA's has been lifted, thus allowing this conversion to all. A conversion requires the payment of taxes now versus at distribution. Whether or not a conversion will benefit you really depends on your situation. Below is a summary of the benefits of converting. While not all benefits will apply to your situation, those that do could make a difference in your increased wealth and the wealth you leave behind to those you love.

#### **Avoid Minimum Distributions**

Roth IRA's do not have the Required Minimum Distribution Rules that other qualified plans do. Having been funded by already taxed dollars the Roth IRA allows the owner to determine the time and amount of any and all distribution. Taking this mandated required distribution starting at 70½ from qualified accounts off the table, gives a Roth IRA owner the advantage to manage their money as they wish. Surviving spouses also receive this benefit when Roth IRA's are transferred. If the Roth IRA is left to a non-spouse, the new owner will be required to take the required minimum distribution, however, the distribution will still be income tax free!

#### **Tax Rate Shifting**

Paying tax now on a conversion from a qualified account to a Roth IRA, especially since no (10% tax) penalty will be assessed for those under 59 ½, could benefit you if your current tax bracket is low but is anticipated on being higher in the future. If you convert to a Roth IRA now, paying tax at your current rate on your small balance may

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### Added Benefit of a Long Term Care Purchase

Starting this year cash values withdrawn from qualified accounts to pay for long term care expenses or long term care insurance policy premiums will not be taxable income. These withdrawals will now be considered a reduction of cost basis.

This change has opened many possibilities to help you structure your accounts to provide the necessary protection for you and your family. I will look forward to helping you decide not just which plan is right for you but also how to benefit from this tax law change.



### CDs vs. Annuities

Bank CDs have some good benefits but what they are lacking should be considered when you are trying to lock in the latest rate offered.

#### **Consider an alternative to CDs if you are:**

- Interested in a lifetime payment option
- Trying to avoid probate expense and delays
- Considering partial free withdrawals without penalty
- A guaranteed minimum interest rate

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# Quarterly Rapport



## Advantages of Conversion

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be an advantage. Later, after your account has grown over the years, you'll be able to take money out of the Roth IRA without paying tax on the growth and avoiding the possible higher tax rate that would have applied to the qualified account in later years. The opposite is true of course for those in their high earning years who anticipate being in a lower tax bracket in retirement.

### A Larger IRA

Whether you view your IRA balances quarterly, monthly or daily, a Roth IRA balance is larger than a qualified account balance with the same dollar amount because the amount coming out of a qualified plan will require tax to be paid. With a Roth IRA, if you meet all the rules, you won't pay tax on the principle or the earnings it generates when you decide to take distributions.

### Estate Tax Reduction

In conjunction with the concept of a Roth IRA being a "larger" IRA because it is not reduced at time of distribution by tax, conversion because of estate tax issues may be an important consideration. Estate tax applies to your total assets at death, not at time of distribution to heirs. For this reason a Roth IRA is superior to a Traditional IRA because a Roth IRA is not further reduced by income tax at the time a beneficiary withdrawal the funds. The conversion allows you to reduce the size of your estate by prepaying the tax on your IRA without reducing the value of your estate for your heirs.

### Flexibility

After a 5-year conversion period an owner of a converted Roth has more flexibility to access funds prior to 59½ without the mandated 10% penalty on other qualified plans. The amount available for access is the amount equal to the original conversion amount plus any regular contributions. While it is always best to avoid using your IRA before retirement, unforeseen needs may arise where you have to access any available funds. Being able to access without paying a 10% penalty will be an added benefit without adding insult to injury!

To sweeten the advantage of conversion in 2010, there are two options in handling the tax liability. The first is not to pay the tax in 2010, but to split the tax between tax year 2011 and 2012. With future tax rates an unknown, the second option, which is to pay the tax bill in 2010 may be desirable. A conversion of your qualified account also doesn't have to be an "all or nothing" transaction. If conversion is right for you, you have the ability to decide the amount you wish to convert. Developing a strategy with your trusted professional advisor to maximize the benefit to you could have you becoming wealthier by paying tax sooner.



## 2010 Contribution Limits

Plan	2010 Limit	Over Age 50	"Catch-Up"	Total
IRA/ROTH	5,000.00 +	1,000.00 +	N/A	= \$ 6,000.00
403(b)	16,500.00 +	5,500.00 +	3,000.00	= \$25,000.00
457/401(k)	16,500.00 +	5,500.00 +	N/A	= \$22,000.00

\*Note that individuals aged 50 and over are eligible for so-called "catchup" contributions, which result in a higher contribution limit. After 2008, contribution limits will be indexed for inflation in \$500 increments.

## The "Client's" Corner



### New Year's Resolution

In a time-honored tradition of making our annual attempt to improve ourselves, many of us vow to shed a few pounds. However, should we manage to remove a little at the beginning of the year on the latest fad diet, often we are unable to maintain. Here are six simple eating adjustments that could have you losing the weight throughout the year.

**1. Water wins** - Drinking about 8 glasses of water a day not only flushes out toxins and teaches your body that it no longer needs to store water, which creates unwanted water retention weight, but water is a natural appetite suppressant.

**2. Soup it Up** - People who eat soup once a day lose more weight than those who don't with both groups consuming the same caloric intake. Homemade soups are best, however, if you can't take time to prepare, go for the low sodium alternative.

**3. Early to Eat** - The same food eaten at breakfast and lunch are processed by your body differently when eaten at dinner. Proteins and fats eaten earlier in the day provide you with energy that leads to activity and weight loss. However, those same foods eaten at dinner increase your tendency towards weight gain. Giving cred to the saying "Eat breakfast like a king, lunch like a prince and dinner like a pauper."

**4. Eat Often!** - Consider 5 smaller meals versus 3 meals a day. Eating steadily though the day keeps you from becoming famished.

**5. Walk it Off** - Physical activity is key. Walking just 30 minutes in the morning or in the early evening can jump start not only your weight loss but also your mood. Activity speeds your metabolism and burns those excess calories.