MARCH 2011 www.calamos.com/wm

Calamos Wealth Management Wealth Strategies



## Making the Most of an IRA

For most of our clients, a secure and prosperous retirement counts among their most important investment objectives. However, retirement planning can be complex, due to evolving regulations and a wide choice of investment vehicles. In this article, we explore some of the issues and opportunities associated with individual retirement accounts (IRAs).

Changes have long been par for the course in the IRA world and the coming years are no exception. This year and next year offer affluent families the opportunity to do significant tax planning with IRA assets. Don't be seduced by tales of enormous tax savings. Each of these opportunities requires careful consideration, examination and projection of both current and future needs. Every investor's situation will be different from the next. With that in mind, those with significant balances in their IRAs may find it beneficial to explore these opportunities:

Converting traditional IRA assets to a Roth IRA. Taxpayers may convert amounts in a traditional IRA to amounts in a Roth IRA. The converted amount is subject to tax as if it were distributed from the traditional IRA and not recontributed to another IRA, but is not subject to the 10% premature distribution tax. The amount in the new Roth IRA grows income tax- free inside the Roth IRA account, and future qualified distributions from the account aren't included in gross income. In addition, the owner of a Roth IRA is not required to take minimum distributions.

While at first blush, converting may seem like a wonderful idea, beware. A proper decision about converting a traditional IRA to a Roth IRA can't be done without a thorough analysis of many factors, including but not limited to: current income tax situation, future income tax situation, current income tax rates, estimated future income tax rates, source of payment for tax bills on the conversion amount, estimated future use of assets in the IRA, future income tax laws pertaining to IRA distribution and a whole host of other factors. Needless to say, the analysis isn't cut and dry and may lead similarly situated individuals to make radically different choices.

**Opening a Roth IRA, if you qualify.** That being said, many investors may find it advantageous to open a Roth IRA as soon as they qualify. Why is that? Qualified distributions from a Roth IRA are tax free. Qualified distributions are defined as distributions made after the five-tax-year period beginning with the first tax year for which the taxpayer made a contribution to a Roth IRA.

## Making the Most of an IRA

The timeline of when qualified distributions can begin is determined at the taxpayer level, not at the Roth IRA account level. In other words, if a taxpayer opens a Roth IRA with \$100 in year one, converts a \$1,000,000 traditional IRA into a Roth IRA in year three, and takes distributions from the Roth IRA in year six, those distributions are qualified distributions. The taxpayer started the five year clock ticking in year one, not in year three. Absent the creation of the Roth IRA in year one, the year-six distributions would not have been qualified distributions and would have been subject to taxation pursuant to the Roth distribution rules. The moral of this story: Planning ahead and contributing to a Roth IRA before converting a traditional IRA may offer significant tax savings.

Opinions referenced are as of the date of publication and are subject to change due to changes in the market, economic conditions or changes in the legal and/or regulatory environment and may not necessarily come to pass. This discussion is intended to be informational only and is not exhaustive or conclusive. While Calamos Wealth Management has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third party information presented herein. Calamos and its representatives do not provide tax or legal advice. Each individual's tax and financial situation is unique. You should consult your tax and/or legal advisor for advice and information concerning your particular situation. This information is provided for informational purposes only and should not be considered tax or legal advice.

For more information about federal and state taxes, please consult the Internal Revenue Service and the appropriate state-level departments of revenue, respectively.



Calamos Wealth Management LLC 2020 Calamos Court Naperville, IL 60563-2787 888.857.7604

www.calamos.com cwm@calamos.com

© 2011 Calamos Holdings LLC. All Rights Reserved. Calamos® and Calamos Investments® are registered trademarks of Calamos Holdings LLC.

CWMIRACOM 8130 03110 WM