



# IRAs and 401(k) Plans: Four Strategies in a Declining Market

No doubt, 2008 was one of the worst years in the history of the stock market, and one of the worst for retirement savings. Here are four things you can do now to help make the best of a bad situation.

## **1. Review your retirement plan**

Review your overall retirement plan with your financial professional. What, if any, adjustments can you make to help you reach your retirement goals? If you were planning to retire in a certain year, determine if that's still realistic, and calculate how much longer your assets might last if you work a few years longer. Can you reach your goals by using a smaller withdrawal rate assumption, or by increasing your IRA or 401(k) savings? Does your asset allocation still make sense? And if you don't have a plan for your retirement, now is a good time to think about establishing one.

## **2. Convert your traditional IRA, or transfer 401(k) plan securities, to a Roth IRA**

Due to declining values, the tax cost of converting to a Roth IRA has dropped dramatically for many investors. Consider whether converting to a Roth IRA makes good financial sense for you. The taxable portion of your traditional IRA will be subject to ordinary income tax in the year of conversion, but qualified distributions from your Roth IRA will be entirely free from federal taxes.

For 2009, you're able to convert only if your modified adjusted gross income is \$100,000 or less (this dollar limit applies whether your tax filing status is single or married filing jointly). If you're married filing separately, you can't convert at all in 2009. But if these rules preclude you from converting, there's always next year--literally. These limitations are repealed in 2010, so anyone will be able to convert a traditional IRA to a Roth, regardless of income level or marital status.

Similarly, if you've decided a Roth IRA makes sense for you, and you're entitled to a distribution from your 401(k) plan, keep in mind that you can roll over (that is, essentially convert) your non-Roth assets to a Roth IRA (hardship withdrawals, certain periodic payments, and required minimum distributions (RMDs) can't

be rolled over). This may be especially attractive if you're entitled to an in-kind distribution of employer stock whose values are seriously depressed--you'll pay tax on this reduced value and any additional appreciation may be tax free. (The same income and marital status limitations that apply to traditional IRA conversions also apply to rollovers from 401(k) plans to Roth IRAs in 2009.)

### **3. Undo a 2008 conversion in 2009**

What if you already converted your traditional IRA to a Roth in 2008, and your IRA balance has taken a significant hit since then? The tax cost of converting was probably much greater than if you had waited until 2009 to convert. Well, don't fret--you can undo a 2008 conversion up until the due date for filing your 2008 tax return, including extensions. Technically called a "recharacterization," this procedure allows you to treat the conversion as if it never occurred.

To undo your 2008 conversion, you need to carefully follow these steps:

- Inform your IRA providers (the one holding the Roth IRA and the one providing the traditional IRA, if different) that you intend to recharacterize your Roth IRA to a traditional IRA. You must provide this notice on or before the date the assets are transferred back to the traditional IRA.
- Make sure the transfer is completed by the due date for filing your federal income tax return for 2008, including extensions. For most taxpayers, that can be as late as October 15, 2009. (If you've already filed a timely 2008 tax return, you can still recharacterize by making the transfer and filing an amended return by October 15, 2009. Be sure to write: "Filed pursuant to Section 301.9100-2" on your Form 1040-X.)
- Report the recharacterization to the IRS (see Form 8606 for more information). You can even reconvert your traditional IRA back to a Roth in 2009 (if you meet the eligibility requirements) beginning on the 31st day following the recharacterization.

### **4. Continue to contribute**

Despite the recent downturn, for many people IRAs and employer retirement plans remain important vehicles for retirement savings. Make sure you're taking full advantage of any company matching contributions you're entitled to. And if you're age 50 or older, keep in mind that you may also be able to make catch-up contributions (up to \$1,000 for IRAs and \$5,500 for 401(k) plans in 2009).

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