RETIREMENT SAVINGS OPTIONS
By Michael J. McNamara

Roth IRAs have been considered extremely attractive retirement options since their inception because growth of the contributed funds (after-tax only) is tax-free. Withdrawals are also tax-free if made after the account-holder is at least age 59½ and has held the account for at least five years.

Due to the popularity of Roth IRAs, the concept has been expanded to 401(k) plans and contribution limits on individual Roth IRAs are being eliminated. For those who are covered by an employment 401(k) plan, a "Roth" 401(k) became an option for employers and employees as of January 1, 2006. *However, the employer/employee Roth 401(k) is not subject to the contribution limits that an individual Roth IRA is subject to but is instead subject to the standard 401(k) contribution limits*. For 2006, employees under age 50 were allowed to contribute up to $15,000.00 and those 50 years of age and over may contribute up to $20,000.00. [1] Employers and employees who wish to take advantage of the Roth 401(k) should do so promptly because, under the legislation which was originally enacted in 2001, the Roth 401(k) is scheduled to terminate in 2010.

For those with individual Roth IRAs, the current income limits for annual contributions of $4,000.00 for those under age 50 and $5,000.00 for those over age 50 will expire in 2010, when the current $100,000.00 adjusted gross income (AGI) limit for Roth IRA conversions will expire. Therefore, for those who now hold regular IRAs and cannot convert them to Roth IRAs because of the $100,000.00 AGI limit, they will be able to convert to a Roth IRA freely as of January 1, 2010. Making the conversion even more attractive is a provision allowing taxpayers who convert in 2010 to pay one-half the conversion tax in 2011 and the other half in 2012. Due to the current short scheduled life of the Roth 401(k), business owners and employees should consult with a qualified tax professional to determine whether they should immediately offer the Roth 401(k). Similarly, those who currently have regular IRAs should consult with a qualified tax professional to determine whether they should begin maximizing regular IRA contributions in order to benefit from the elimination of AGI income limits in 2010.

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[1] However, the $15,000.00 and $20,000.00 limits are *combined* limits for an employer/employee 401(k) and an individual 401(k).