
ADVISOR ACTION PLAN

- Have qualifying clients open Roth IRAs as soon as they can, in order to start the five-year clock for qualified distributions that can be withdrawn tax-free. This will also start the five-year clock for Roth 401(k) or Roth 403(b) funds that are subsequently rolled into the Roth IRA.
- If a client cannot open a Roth IRA now (because of income limitations), then plan to convert traditional IRAs to Roth IRAs in 2010, when the law changes and everyone can convert to a Roth IRA to start their five-year clock.
- When clients who have Roth 401(k)s or Roth 403(b)s leave their employer, the best move is to roll those funds over to a Roth IRA as opposed to another Roth employer plan. The distribution rules are more favorable in the Roth IRA, especially if the Roth is opened early enough (for the five years). Basis in a Roth IRA comes out first, so clients have more access to tax-free funds.
- If clients roll over their Roth 401(k)s or Roth 403(b)s to another employer's Roth plan, then the rollover should be done as a trustee-to-trustee transfer (a direct rollover) so as to have the five-year clock begin with the date of the transferring (existing) plan if that five-year clock started earlier than the receiving plan.
- To avoid confusion, encourage clients not to take early withdrawals from Roth 401(k)s, Roth 403(b)s, or Roth IRAs.
- Keep track of the basis [contributions, conversions, and rollovers of basis from Roth 401(k)s or Roth 403(b)s] in all Roth accounts, so the advisor and client know the amount of the investment in the plan and the earnings.
- Keep track of five-year holding periods in all Roth accounts so advisors and clients know when clients can take qualified (tax-free) distributions from these accounts, and to avoid unintended taxable distributions or distribution complications.
- Advise clients who are approaching age $70\frac{1}{2}$ to roll over their Roth 401(k) balances to Roth IRAs before the year they turn age $70\frac{1}{2}$, to avoid being subject to RMDs in the Roth 401(k).
- Make sure that clients' Roth IRA documents are amended to allow rollovers from Roth 401(k)s and Roth 403(b)s.