

# The Roth IRA Conversion



## MetLife®

**H**ave you accumulated significant savings in your Individual Retirement Accounts (IRAs)? With tax deductible contributions and tax-deferred investment growth, traditional IRAs can be an effective way to save for retirement. However, they may not be the ideal strategy for transferring wealth to your beneficiaries.

Distributions from the account ordinarily must begin when you reach age 70½ – whether you need the income or not. These distributions are generally taxed as ordinary income. As a result, a considerable portion of your IRA may be distributed to the IRS, rather than your beneficiaries. Further, if any portion of the traditional IRA is passed to beneficiaries other than your spouse, double taxation (income and estate taxes) might reduce your IRA assets by 70%!

### Roth IRAs: An Attractive Alternative

As with a traditional IRA, the assets in Roth IRAs grow income tax-free. Unlike a traditional IRA, with Roth IRAs, you are not taxed on the distributions. Also, there are no minimum distribution requirements during life.

So, if you don't need the income for retirement, you can let the Roth IRA continue to grow income tax-free until your death. It is only after death, when the Roth IRA is payable to your beneficiaries, that minimum distributions must be made. These distributions may still be income tax-free. A potential lifetime of tax-free earnings, plus tax-free distributions can mean significantly more wealth passed to your beneficiaries.

### Converting to a Roth IRA

You may be able to convert your existing traditional IRA to a Roth IRA. In order to do so, however, your annual adjusted gross income (AGI) must not exceed specified levels (\$100,000 in 2004), and you must pay current income taxes



Use Roth IRAs to pass on wealth to your beneficiaries.

on the value of the IRA that you convert. As a result, for many people, a lifetime conversion is either not possible or not practical. If that is the case, you may want to enable your surviving spouse to make a conversion at your death using life insurance. This strategy may allow the surviving spouse to pass on more assets to beneficiaries.

### How the Strategy Works

1. Maintain your traditional IRA, and make sure your spouse is your sole designated beneficiary. During your lifetime, you may take distributions as needed. Minimum required distributions generally must begin when you reach age 70½. Distributions from your traditional IRA are treated as ordinary income and are taxed accordingly.
2. Use the distributions to purchase a life insurance policy on your life, and designate your spouse as beneficiary. The life insurance proceeds will help your surviving spouse cover income taxes due on the IRA at your death.
3. At your death, your spouse takes advantage of a special provision in the tax code and elects to treat your IRA as his or her own IRA. (This is only possible if the spouse is the sole designated beneficiary.)
4. The surviving spouse then converts the IRA to a Roth IRA. (To do this, the spouse's adjusted gross income must not exceed specified limits in the year of the conversion. In 2005, that amount is \$100,000.)

5. As a result of the conversion, the value of the IRA will be included in the spouse's income. Income taxes due on the conversion can be paid with the income tax-free life insurance proceeds.
6. The surviving spouse can enjoy the benefits of an income tax-free Roth IRA account. The surviving spouse names his or her children as beneficiaries of the Roth IRA. He or she is able to take distributions only as needed – not subject to required minimum distributions.

## Summary: Roth IRA Conversion with Life Insurance

Those individuals who do not need retirement income from their traditional IRA, and wish to pass on their IRA to their beneficiaries face many tax challenges: double taxation of

income and estate tax can reduce the IRA's value by 70%. There are alternatives, however if your goal is passing on your IRA assets to beneficiaries instead of using these assets for retirement income, a Roth IRA may be a better alternative to a traditional IRA because, with a Roth IRA, distributions are not taxed. However, if you convert to a Roth IRA during your lifetime, income taxes are due on the transfer.

By purchasing a life insurance policy on your life using the distributions you take out from the traditional IRA, you can provide your spouse with cash at death to cover his or her income tax liability on the IRA. Since a life insurance death benefit may be significantly higher than the premiums paid, your spouse may inherit more assets. ■

This document is designed to provide introductory information on the subject matter. MetLife Investors does not provide tax and legal advice.

**Pursuant to IRS Circular 230, MetLife is providing you with the following notification: The information contained in this document is not intended to (and cannot) be used by anyone to avoid IRS penalties. This document supports the promotion and marketing of insurance products. You should seek advice based on your particular circumstances from an independent tax advisor.**

Variable universal life insurance (VUL) is underwritten by MetLife Investors Insurance Company on Policy Form Series CLP001 and CP002 and MetLife Investors Insurance Company of California on Policy Form Series CCP00104 and CCP00204. Guarantee Advantage Universal Life (GAUL) is issued by MetLife Investors USA Insurance Company on Policy Form Series 5E-30-04 and, in New York, only by Metropolitan Life Insurance Company, New York, 200 Park Avenue, New York, NY 10166 on Policy Form Series 1E-30-04-NY. Legacy Advantage Survivorship Universal Life (LASUL) is issued by MetLife Investors USA Insurance Company on Policy Form Series 5E-32-05 and, in New York, only by Metropolitan Life Insurance Company on Policy Form Series 1E-32-05-NY. Universal Advantage Universal Life (UAUL) is issued by MetLife Investors USA Insurance Company on Policy Form Series 5E-31-05 and, in New York, only by Metropolitan Life Insurance Company on Policy Form Series 1E-31-05-NY. Corporate owned life insurance (COLI) is issued by New England Life Insurance Company on Policy Form Series NEV-14. All guarantees are based on the claims paying ability of the issuing insurance company. Products are distributed by MetLife Investors Distribution Company (MetLife Investors), 5 Park Plaza, Suite 1900, Irvine, CA 92614. November 2005.

Prospectuses for variable life insurance issued and/or distributed by a MetLife Investors insurance company, and for the investment portfolios offered thereunder, are available from MetLife Investors. The prospectuses contain information about the contract's features, risks, charges and expenses, and the investment objectives, risks and policies of the underlying portfolios, as well as other information about the underlying fund choices. Clients should read the prospectuses and consider this information carefully before investing. Product availability and features may vary by state.

MetLife Investors variable life insurance has limitations. There is no guarantee that any of the variable investment options in this product will meet their stated goals or objectives. The account value is subject to market fluctuations so that, when withdrawn or annuitized, it may be worth more or less than its original value. All product guarantees are based on the claims-paying ability of the issuing insurance company.

For a non-MEC policy, income taxes are due upon withdrawal, only to the extent that they exceed basis. For a MEC policy, income taxes are due upon withdrawal and if withdrawn before age 59½, a 10% penalty tax may apply. Loaned amounts are generally not subject to income taxation.

Loans or withdrawals will decrease the cash value and death benefit.

Life insurance is medically underwritten, so all candidates should be in reasonably good health. You should not cancel your current coverage until your new coverage is in force. Surrender charges may be due on an exchange of one contract for another. A change in policy may require an examination. Surrenders may be taxable. There may be partial and/or full surrender charges for early withdrawal from life insurance.

• Not A Deposit • Not FDIC-Insured • Not Insured By Any Federal Government Agency  
• Not Guaranteed By Any Bank Or Credit Union • May Go Down In Value

**have you met life today?®**

**MetLife®**