MetLife Investors

The Roth IRA Conversion

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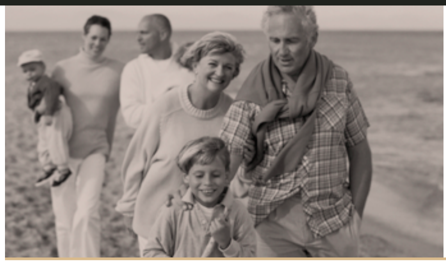

Have you accumulated significant savings in your Individual Retirement Accounts (IRAs)? With tax deductible contributions and tax-deferred investment growth, traditional IRAs can be an effective way to save for retirement. However, they may not be the ideal strategy for transferring wealth to your beneficiaries.

Use Roth IRAs to pass on 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 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. ■

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