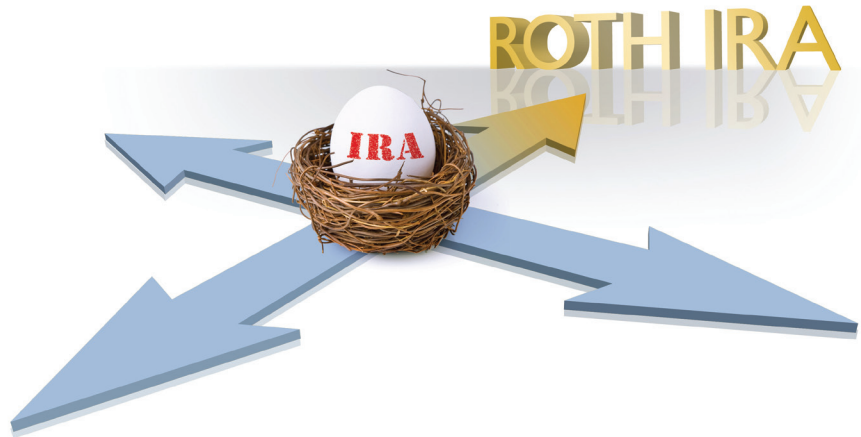




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TIPRA

Allowing Millions
More Access to a
Roth IRA



Are you aware of the new opportunity higher-income investors have to save for retirement?

The Tax Increase Prevention & Reconciliation Act (TIPRA) of 2005 was signed into law by President Bush on May 17, 2006 to be effective in 2010.

TIPRA includes a provision that facilitates the conversion of Traditional IRAs to Roth IRAs for an individual whose Modified Adjusted Gross Income (MAGI) exceeds \$100,000. Prior to 2010, these investors were NOT eligible for a Roth IRA conversion – effectively excluding them from the tax-deferred growth of earnings, tax-free distributions and no required minimum distributions (RMD) that Roth IRAs offer which may be helpful to them as they move toward retirement.

What does TIPRA do?

TIPRA effectively eliminates the restriction that previously prevented individuals with adjusted gross income exceeding \$100,000 from converting a traditional IRA to a Roth IRA.

In addition, since income tax is generally due on the full amount of the traditional IRA conversion, TIPRA enables individuals who convert a traditional IRA to a Roth IRA in 2010 to automatically spread the resulting reportable income over the following two years, ratably including the income in 2011 and 2012. Individuals can elect to report 100% of the resulting income in 2010 if they wish.

With this change to Roth IRA conversions, individuals who have traditional IRA balances can weigh the benefits of converting some or all of their balances to a Roth IRA.

Why should my clients consider a Roth IRA conversion?

Many things go away in retirement; taxes are not one of them. Qualified distributions from a Roth IRA, including distributions of earnings, are tax free, as long as they meet both of the following requirements:

1. The distribution takes place at least five years after the initial Roth contribution, and
2. One of the following applies:
 - a. The Roth IRA owner is at least age 59 1/2.
 - b. Death — distribution to a beneficiary or to the owner's estate on, or after, the Roth IRA owner's death.
 - c. Disability — distribution that is attributable to the Roth IRA owner being disabled.
 - d. First-time home purchase (\$10,000 lifetime limit).

The true benefit of Roth IRA conversions is the potential tax savings. The Roth IRA enables a taxpayer to pay income tax at current rates because they believe the rate will be higher in the future (either because the person who withdraws the money will have higher income then, or because they believe that Congress will raise tax rates in the future).

Another benefit of a Roth IRA is that the taxpayer does not have to withdraw the money. Unlike a traditional IRA where the taxpayer must begin making withdrawals at age 70 1/2, taxpayers can let the Roth account continue to grow because they've already paid taxes. This can be a critical wealth management tool with many people living 30 years or more beyond retirement.

Assuming income tax rates do not drop in the future, a Roth conversion may be advantageous for many taxpayers who are planning for retirement since the Roth IRA may provide more tax benefits than a traditional IRA.

Are there any tax considerations?

Since a taxpayer typically must include conversion income on his or her tax return for the tax year in which funds are transferred or withdrawn from the traditional IRA, it is always recommended that you consult with a qualified tax advisor regarding any strategy.

Here are some points to consider:

- Under TIPRA, income from a 2010 conversion of a traditional IRA to a Roth IRA is included in the taxpayer's income over a two-year period, beginning in 2011, unless the taxpayer elects otherwise. However, if the converted amount is distributed before 2012 the income inclusion is accelerated.
- At the point of conversion, clients must aggregate all of their IRAs. Furthermore, if the IRAs contain nondeductible (after tax) and deductible (pretax) funds, then each dollar converted from the IRAs will contain a percentage of tax-free funds and a percentage of taxable funds.
- Taxpayers may want to consider paying for the taxes owed on the Roth IRA conversion from an account other than the converted IRA. Individuals who use conversion proceeds to pay the taxes due could be subject to income tax and the 10% early withdrawal penalty.
- Be aware that the amount converted could put the taxpayer in a higher tax bracket. The amount pulled out of the IRA or 401(k) to convert will add to taxable income for the year. To avoid this issue, the taxpayer could consider a partial conversion now and additional partial conversions in subsequent years.

Who should I talk to about this opportunity?

- 401(k) plan participants who have left employment and who roll their plan assets into a traditional IRA could be eligible to convert these assets into a Roth IRA. Furthermore, participants who still have a 401(k) plan from past employers can roll those funds directly into a Roth IRA account.
- Self-employed individuals may roll terminated Keogh/HR-10 plan assets directly into a Roth IRA account. SEP-IRA and SIMPLE IRA* participants may directly convert accounts to Roth IRAs.
- High-income taxpayers who have a traditional IRA can convert their traditional IRA to a Roth IRA in 2010, assuming they have sufficient earned income and are under age 70 1/2. Retirees today may have a horizon of 25-30 years; tax-free earnings over this period may be beneficial from an accumulation and tax standpoint, as well as from an estate planning perspective.

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Roth IRA conversions is the
potential tax savings.

What does this mean for my business?

High-income taxpayers now have an opportunity to invest in a retirement account that could provide:

- Tax-free distributions throughout retirement
- Relief from required minimum distributions
- Tax-free distributions to beneficiaries

As you look for new ideas on how to grow your book of business, keep this TIPRA provision in mind. As industry experts have stated, this may be the year of the Roth.

*Two years from the date of the participant's first SIMPLE IRA contribution.

For more information regarding Roth IRA conversions, or for information on Steadfast Capital Markets Group, contact your Regional Vice President or the Sales Desk at:
(877) 525-SCMG (7264)

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