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NEWS RELEASE

FOR IMMEDIATE RELEASE

DO A LITTLE HOUSECLEANING ON YOUR RETIREMENT PLANS NOW

Tax Analyst from Thomson Reuters Explains How to Maximize All Possible Tax Advantages

New York, NY, Fourth Quarter, 2008 – Now that the last quarter of the year has arrived, there are a number of retirement planning steps that taxpayers should consider for maximum tax savings, explains Dick O'Donnell, Senior Tax Analyst for the Tax & Accounting business of Thomson Reuters.

Here's a rundown of some steps that retirement plan participants should consider taking before year's end:

Watch your deferrals. Compensation amounts that participants can defer to retirement savings plans, such as 401(k) and 457 plans increase annually, with the 2008 maximum set at \$15,500. Now is a good time to make sure that you're taking full advantage of these deferral ceilings. If you can afford to, consider increasing your deferral percentage between now and the end of the year to reach this goal.

Catch-up Contributions. If your plan allows for catch-up contributions, and you're age 50 (or older), you can make an additional \$5,000 contribution to the plan. So you may be able to contribute as much as \$20,500 for 2008. For highly compensated employees, whose 401(k) plan deferrals are less than the allowable maximum because of nondiscrimination testing, the catch-up provisions apply without regard to the nondiscrimination rules, so the full \$5,000 (for 2008) catch-up amount can be contributed to the plan.

Deemed IRAs. A qualified retirement plan may allow employees to make voluntary contributions to a separate plan account that's treated as an IRA. That is, the separate account ("deemed IRA") is subject to the rules for IRAs, including eligibility, instead of the qualified plan rules. The deemed IRA can be either a traditional or a Roth IRA. In effect, this allows employees to fund IRAs using the same payroll deduction taken for 401(k) deferrals, while using the plan's investment services. Check to see if your plan allows for this, or needs to be amended.



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Funding IRAs. Even if you can't make a deductible contribution to an IRA, consider making a non-deductible contribution. While you won't get a tax deduction for this contribution, the money in the IRA will grow tax-free. And, you don't have to start taking distributions until you reach age 70 ½. The IRA contribution limit for 2008 is \$5,000.

As with 401(k) plans, IRAs allow for an additional \$1,000 (for 2008) catch-up contribution for taxpayers age 50 or older, for a total contribution of \$6,000.

For those taxpayers who qualify, Roth IRAs may be a more attractive alternative. Again, there's no deduction for a Roth IRA contribution, but the contribution need only stay in the Roth IRA for five years. Thereafter, the contribution can be withdrawn, along with earnings. If the Roth IRA owner is at least 59 ½ years old, the withdrawal of earnings is tax-free. And, for estate building purposes, Roth IRAs aren't subject to the minimum required distribution rules, so you aren't required to take any money out of your Roth IRA during your lifetime.

Stretching Out Your IRA and Qualified Plan Distributions. Under IRS rules, you're required to start taking distributions from your IRAs and qualified plan accounts no later than the April 1st of the year after you turn 70 ½. Within the past few years, the IRS distribution tables that are used to determine required distributions have been substantially revised, so the amount you're required to take out each year may have changed. Thus, if you don't need this money to live on, you may want to discuss decreasing the amount of your distributions with your tax advisor. Of course, the new rules won't stop you from taking out more than the required minimum amount, if you desire.

Taking Distributions of Employer Stock. Taking employer stock distributions from your qualified plan and selling the stock yourself may be more tax effective than having the plan sell the stock and distribute the proceeds to you, since the "net unrealized appreciation," or NUA, is taxed at the more favorable long-term capital gains tax rate. NUA is the difference between the plan's basis in the stock and the stock's fair market value at the time of distribution. Under the NUA rules, only the benefit plan's basis in the employer stock is currently taxable. The difference between this basis and the stock's fair market value is not subject to tax until you sell the stock. And when you sell the stock, the difference is taxed at the lower long-term capital gains rate, even if you do not hold the stock long enough to meet the holding period that's otherwise required for long-term capital gain treatment.

Converting Traditional IRAs to Roths. Amounts in a traditional IRA can be converted to a Roth IRA if--for the year in which the amount is withdrawn from the traditional IRA: (1) the taxpayer's modified adjusted gross income (not counting the taxable amount of the conversion) does not exceed \$100,000, and (2) he or she isn't a married individual filing a separate return (unless he or she lived apart from the spouse during the entire year). The distribution from the traditional IRA is treated as a regular payout for income tax purposes, and income resulting from the conversion (i.e., the traditional IRA withdrawal) is included on the return for the tax year in which funds are transferred or withdrawn from the traditional IRA. However the 10% premature distribution penalty doesn't apply.



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When the value of the assets transferred from a traditional IRA to a Roth IRA in a conversion fall, such as when stocks lose value in a bear market (or other market turmoil), taxpayers may undo the conversion by "recharacterizing" it. This is done by transferring the conversion contribution made to the Roth IRA (plus any earnings or less any losses) to the traditional IRA in a trustee-to-trustee transfer. This transfer must be made by the due date (plus extensions) for the taxpayer's return for the affected year, and must be reflected on the return for that year.

A person who transfers an amount back to a traditional IRA in a recharacterization may later reconvert that amount to a Roth IRA. However, timing limits apply to these reconversions. An IRA owner who converts -- or who has converted an amount from a traditional IRA to a Roth IRA -- and then transfers that amount back to a traditional IRA in a recharacterization can't reconvert that amount to a Roth IRA before the later of:

- ... the beginning of the tax year following the tax year in which the amount was converted to a Roth IRA or,

- ... the end of the 30-day period beginning on the day on which the IRA owner transfers the amount from the Roth IRA back to a traditional IRA by way of a recharacterization.

This waiting period applies regardless of whether the recharacterization occurs during the tax year in which the amount was converted to a Roth IRA or the following tax year.

A reconversion made before the required waiting period has run is treated as a failed conversion. This results in a distribution from the traditional IRA that's subject to tax (and possibly penalty tax) followed by a regular contribution to the Roth IRA.

Says O'Donnell, "Taxpayers who converted a traditional IRA to a Roth IRA in 2007, only to see the value of those assets fall, should consider undoing the transaction via a recharacterization this year to avoid having to pay taxes on the conversion at the assets' higher conversion date value. Taxpayers who timely filed their returns may make a recharacterization within six months of the due date for the return (excluding extensions). Thus, taxpayers who timely filed their 2007 returns have until October 15, 2008 to recharacterize the conversion by filing an amended return for 2007."