

Courtesy of: Royalty Owner Help Desk

Financial basics

By the numbers

- There is **\$17.1 trillion** currently held in tax-deferred retirement accounts.
- About **\$4.5 trillion in assets** are currently in IRAs, and this number will continue to increase as baby boomers retire and put their savings into these accounts.

Source: www.ici.com, 2008

Roth IRA: a retirement investment choice

When saving for retirement, it is a good idea to become familiar with all of the investment vehicles available to you. Historically, many retirement investors have saved by contributing to a traditional Individual Retirement Account (IRA) and/or company-sponsored 401(k) or 403(b) plans. In 1997, however, the Roth IRA was introduced as another option for investors looking to make their retirement years more comfortable.

Why should you consider investing in a Roth IRA?

IRAs in general offer a number of advantages. In the case of the traditional IRA, contributions may be deductible under certain circumstances. In addition, earnings on contributions can accumulate tax deferred.

This means simply that investors are not required to pay taxes on deductible contributions or earnings growth as long as the money stays in the IRA. Contributions can be made to a traditional IRA until the account owner is age 70½, at which point he or she must begin taking mandatory distributions.

A Roth IRA, on the other hand, allows earnings on contributions to accumulate tax free past age 70½. Unlike contributions made to a traditional IRA, Roth contributions are not tax deductible. Investors in a Roth IRA will never have to pay taxes on the earnings portion of their contributions, provided the account is at least five years old and the account owner is at least age 59½ when withdrawals are needed.

Additionally, you can make nondeductible contributions to a Roth IRA for as long as you want, even after age 70½. For both the traditional IRA and the Roth IRA, there is a 10% federal penalty tax on withdrawals of all the earnings portion of the account taken prior to age 59½ unless an exception applies.

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Key points

- Earnings accumulate tax deferred in a Roth IRA and may be distributed tax free after you reach age 59½ if you have had the account for at least five years.
- With a Roth IRA, contributions may be withdrawn at any time with no tax consequence, and capital gains from investment exchanges are not taxed.
- For individuals who want to leave assets to their heirs, a Roth IRA does not require distributions to the owner at age 70½.



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Who is eligible?

While almost anyone who is actively employed is qualified to contribute to a traditional IRA, there are eligibility requirements for investing in a Roth IRA. In general, starting in 2009, single people with a modified adjusted gross income (MAGI) of less than \$120,000 and married people with a combined MAGI of less than \$176,000 are eligible to make at least partial contributions each year. Below is a breakdown of eligibility:

Single

- full contribution if MAGI is \$101,000 or less (2008)
\$105,000 or less (2009)
- partial contribution if MAGI is \$101,001 to \$116,000 (2008)
\$105,001 to \$120,000 (2009)

Married (filing jointly)

- full contribution if MAGI is \$159,000 or less (2008)
\$166,000 or less (2009)
- partial contribution if MAGI is \$159,001 to \$169,000 (2008)
\$166,001 to \$176,000 (2009)

Maximum contribution limit for 2008 and 2009

Single	\$5,000
Married	\$10,000

Future years will be indexed for inflation.

Remember, if you are at least 50 years old, you are eligible to make additional catch-up contributions each year of \$1,000.

Is a Roth IRA right for you?

Just because you are eligible to contribute because you meet the income-based eligibility requirements does not mean a Roth IRA is the best product for your individual situation. Your overall investment objectives and retirement time frames will have a significant impact on which type of IRA you eventually choose.

A Roth IRA may be right for you if you

- prefer tax-free distributions over a tax deduction now
- do not want to have required minimum distributions at age 70½
- are already making nondeductible contributions to a traditional IRA
- want tax-free payments to a beneficiary

These are only some of the considerations, and there may be other factors to consider that are unique to your situation. That is why it is important for you to discuss your options with your financial advisor before making a decision.

Roth IRAs are flexible in times of need

Because your annual Roth IRA contributions are nondeductible, you can always withdraw up to the amount of your contributions without incurring taxes or penalties. Once the Roth IRA is five years old, the IRA also permits tax-free and penalty-free withdrawals of investment gains if the withdrawal is a “qualified distribution.” A distribution is qualified if it is made

- after age 59½
- because of death or disability
- for a first-time home purchase (\$10,000 limit)

Please note: If you convert a taxable amount from a traditional IRA to a Roth IRA and you take a withdrawal from that amount within five years of the conversion, the withdrawal will be subject to a 10% penalty tax unless an IRS exemption applies. The “qualified distributions” described above are exempt from the penalty, as are distributions made to cover certain medical, educational, and health insurance expenses. Keep in mind that when you take money out of any IRA, it is not a loan that can be paid back. If at all possible, you should consider using other assets before taking premature withdrawals from an IRA.



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What's my first step?

The first thing you must do is sit down with your financial advisor to discuss your current situation and your retirement goals. Factors such as your income, the number of years until retirement, lifestyle goals, and future tax brackets will play a large role in helping you decide which type of IRA you are eligible for and might be more effective in helping fund your retirement.

Now, assuming you are eligible for and settle on a Roth IRA, you then need to determine how much you can contribute and how often. Most institutions offering Roth IRAs will let you invest in a lump sum or at regular intervals: monthly, bimonthly, or quarterly.

If you already have one or more IRAs or are contemplating converting one or more existing traditional IRAs to a Roth IRA, consider consolidating them into a single Roth IRA (see *Consolidating Retirement Plan Assets* infosheet). Doing so will not only simplify your recordkeeping now and your distributions later, it also may save you money in annual IRA trustee fees.

The cost of waiting

As convenient, tax appealing, and flexible as a Roth IRA is, however, it is you who has control over its most attractive feature — the power to accumulate over time. The chart below illustrates how \$1,000 invested at the beginning of each year would grow at a hypothetical 6% annual rate of return.

Invested per year	Starting age	Total value at age 65
\$1,000	35	\$89,890
\$1,000	36	\$83,802
\$1,000	40	\$62,706

Cost of waiting one year	\$6,088
Cost of waiting five years	\$27,184

This hypothetical example is for illustrative purposes only and is not intended to represent the future performance of any MFS product. Rates of return vary over time, particularly for long-term investments. There is no guarantee that the selected rate of return can be achieved.

As you can see, the earlier you start investing, the better. And, while a Roth IRA is by no means the answer to all of your retirement needs, opening one sooner rather than later could very well mean the difference between living a comfortable retirement and enjoying the retirement of your dreams.

Resources

Bledsoe, John D., *Roth to Riches: The Ordinary to Roth IRA Handbook*, Legacy Press, 1998

Trock, Gary R., *The Roth IRA Made Simple*, Conquest Publishing, 1998

Daryanani, Gobind, Ph.D.; Roth, William V.; and Alter, Murray, *Roth IRA Book: An Investor's Guide*, Digiquial Inc.

www.irs.gov

Before investing, consider the fund's investment objectives, risks, charges, and expenses. For a prospectus containing this and other information, contact your investment professional or view online at mfs.com. Please read it carefully.

Contact your financial advisor for more information, or visit mfs.com.

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