

*John Hancock*<sup>®</sup>

MUTUAL FUNDS

## Roth IRA Conversions



New Roth IRA changes  
could save you taxes in retirement

There are many reasons  
to be excited about Roth IRAs today!



On January 1, 2010, the rules for Roth IRAs changed. Thanks to the Tax Increase Prevention and Reconciliation Act of 2005, higher income individuals with an adjusted gross income (AGI) of more than \$100,000 are eligible to convert to Roth IRAs for the first time. So if you've never been eligible for a Roth IRA because your income is too high, now is your chance!

This information may help you analyze your financial needs; however, we strongly suggested you speak to your tax adviser before considering converting to a Roth IRA.

# Key benefits and differences of IRAs

There are two primary types of IRAs — Roth and Traditional. There are significant differences between them when it comes to contributions and withdrawals.

Roth IRA	Traditional IRA
Money gets invested on an after-tax basis. The account then grows tax-free, and upon retirement, <b>any withdrawals on earnings are tax-free</b> — meaning you don't have to pay taxes on your gains.	Allows investors (depending on circumstances) to deduct their contribution from earned income. The account grows <b>tax-deferred until retirement</b> , at which time withdrawals will be taxed as ordinary income.
<ul style="list-style-type: none"><li>■ Contributions are on an after-tax basis.</li></ul>	<ul style="list-style-type: none"><li>■ Contributions may be tax deductible.</li></ul>
<ul style="list-style-type: none"><li>■ Earnings grow free from federal taxes.</li></ul>	<ul style="list-style-type: none"><li>■ Earnings grow tax-deferred from federal taxes.</li></ul>
<ul style="list-style-type: none"><li>■ When an investor reaches retirement age and begins withdrawing money, there are no taxes to pay on the earnings.</li></ul>	<ul style="list-style-type: none"><li>■ When an investor reaches retirement and begins withdrawing money, taxes must be paid at ordinary income rates on any deductible contributions.</li></ul>
<ul style="list-style-type: none"><li>■ No required minimum distribution (RMD) requirements.</li></ul>	<ul style="list-style-type: none"><li>■ RMDs required at age 70½.</li></ul>
<ul style="list-style-type: none"><li>■ Contributions allowed after age 70½.</li></ul>	<ul style="list-style-type: none"><li>■ No contributions allowed after age 70½.</li></ul>

## Why am I hearing about Roth IRA conversions now?

Legislation was passed that changed the tax rules, beginning in 2010. So if you have IRAs, SEPs, SIMPLE IRAs or other similar retirement vehicles, you may be able to convert some or all of the assets into a Roth IRA.

Converting to a Roth IRA is a taxable event. Normally, the amount converted to a Roth IRA will be included as ordinary income in the tax year of the conversion. But for **conversions in 2010 only**, taxpayers can elect to defer half their tax liability to 2011 and the other half to 2012. So you can extend your tax payments over two years and gain time to accumulate funds to pay for the conversion.

A Roth IRA distribution is qualified if you've had the account for at least five years and the distribution is made after you've reached age 59½. IRA distributions made prior to age 59½ may be subject to a federal income tax penalty.



# 5 reasons to consider converting to a Roth IRA

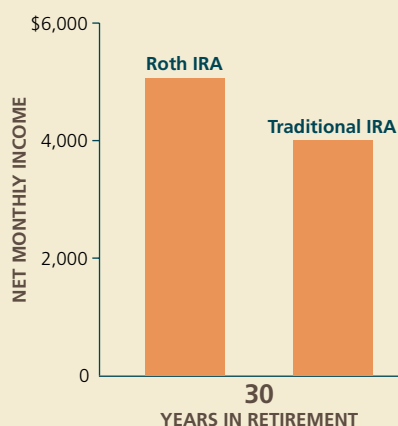
## 1. Tax-free withdrawals

With a regular IRA, you pay taxes at ordinary income rates when you take distributions. Over a 20 or 30 year retirement, those taxes can really take a big chunk out of your income. But because you have already paid taxes on money invested in a Roth IRA, when you take distributions from it, they are tax-free. Lets look at an example:

- Mary, who is age 40, plans to retire at age 65. She is in the 35% tax bracket and expects the same in retirement.
- She has saved \$100,000 dollars in a previous employer's 401(k) plan and anticipates her account will grow at 8%, both before and after retirement.
- Mary wants her account to last 30 years in retirement.

### Here are the results:

By paying the taxes of approximately \$35,000 today, Mary would have \$379,957 more tax-free dollars in retirement.



	Roth IRA	Traditional IRA
Years in retirement	30	30
Balance today	\$100,000	\$100,000
Balance at retirement	\$684,848	\$684,848
Estimated side account*	N/A	\$124,297
Gross monthly income	\$5,069	\$5,989
Taxes (35%)	n/a	\$1,975
<b>Net monthly income</b>	<b>\$5,069</b>	<b>\$4,014</b>
<b>Total retirement income</b>	<b>\$1,824,997</b>	<b>\$1,445,040</b>

\* To account for the "opportunity cost" of paying for the taxes on the Roth IRA out of pocket, a "side account" was established under the Traditional IRA. The side account illustrates how the \$35,000 paid in taxes might have grown if it was invested at a consistent rate of 8%. The estimated "side account" is added to the tax-deferred Traditional IRA funds to arrive at the monthly income shown under the Traditional IRA and the earnings were taxed every year.

Use our Roth IRA conversion tool at [jhfunds/Rothconversion.com](http://jhfunds/Rothconversion.com) to run a similar comparison for yourself.

## 2. Tax rates are low

When converting your IRA to a Roth IRA, taxes will need to be paid at the time of the conversion. Considering the current budget deficits and the costs of the bailout and stimulus, many people believe that income-tax hikes are inevitable. If so, then you may wish to convert to a Roth IRA now.

## 3. Tax-diversification in retirement

There are few investments that grow tax-free, but a Roth IRA is one of them. By being able to supplement retirement income with tax-free income, retirees increase their likelihood of keeping themselves in a lower tax bracket. Given that many people can expect to live another 20 or 30 years in retirement, many experts recommend a combination of tax-free and tax-deferred products to help you meet your income needs.

## 4. The current market may provide a lower cost conversion opportunity

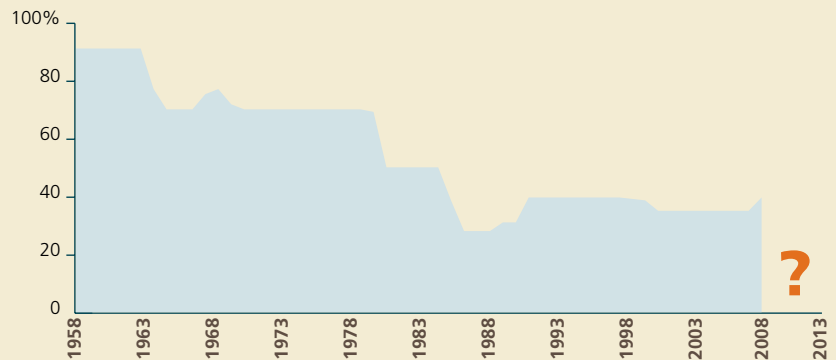
Retirement accounts generally grow tax-deferred, and investors eventually have to pay taxes on the value of those retirement accounts. Investors who have accounts that decreased in value because of market conditions, might want to convert assets to a Roth while their account values are lower. That way they can pay less in taxes now, since the value of the account is lower.

## 5. Tax-free stretch

If you hope to leave retirement assets to your heirs one day, a Roth account could be a simple and effective way to leave them more.

Similar to traditional IRAs, the beneficiary of a Roth IRA can choose to make the IRA last longer by stretching it over time, taking only the required beneficiary distribution each year over his or her life expectancy. However, only the Roth IRA permits the undistributed amount to continue to be invested and grow tax-free (as opposed to merely tax-deferred) over the beneficiary's lifetime. For most beneficiaries, that can amount to a huge difference over time. Generally investors considering a Stretch IRA, have no need for the money (in the IRA) either before or after retirement. Further, the Stretch IRA strategy also assumes that tax laws and IRS rules constant for the life of the IRA.

### Tax brackets for the last 50 years



Source: Pension Protection Act of 2006.

# What should you do next?

Whether or not a Roth conversion is right for you depends upon many factors. A good first step would be to sit down with your financial professional to discuss your overall retirement picture, and to discuss any assets that could be used to pay the conversion taxes. You'll also want to take into consideration:

- Investment time horizon
- Current income tax bracket
- Anticipated income-tax bracket at retirement
- Whether or not you think taxes will go up

## John Hancock Funds can help you!

There are many things to consider when it comes to Roth conversions. To help you, John Hancock has developed materials and tools to make the decision process easier.



### Roth decision calculator

This simple, easy-to-use calculator lets you run some scenarios to see whether a Roth IRA conversion can benefit you.

### Roth thought paper

This brief research paper details three important reasons why a Roth conversion could make sense: the current market provides a low-cost opportunity, tax-free stretch and a hedge against rising tax rates.

### Videos

Industry experts discuss some of the pros and cons of Roth IRA conversions.

### Stretch IRA brochure

What does it mean to stretch an IRA for your beneficiaries? This step-by-step brochure takes you through the numbers and mechanics of stretching an IRA over time.

### Beneficiary checklist

Any time you convert assets or roll them over, it's important to name beneficiaries. This checklist can help you keep track of all your accounts in one easy place.



**When it comes to converting or protecting your retirement assets, you want to make sure you get it right. Talk to your financial adviser today about whether a Roth IRA makes sense for you.**

For information on how to convert to a Roth IRA, contact your financial adviser or John Hancock Funds at 1-800-225-5291.

# Why John Hancock Funds?

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**A fund's investment objectives, risks, charges and expenses should be considered carefully before investing. The prospectus contains this and other important information about the Fund. To obtain a prospectus, contact your financial professional, call John Hancock Funds at 1-800-225-5291 or visit our Web site at [www.jhfunds.com](http://www.jhfunds.com). Please read the prospectus carefully before investing or sending money.**

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- John Hancock Funds won many awards in 2009, including “Best Overall Communications” from the Mutual Fund Education Alliance for the fourth year in a row.
- John Hancock Signature Services, Inc., the transfer and shareholder services agent for John Hancock Funds, attained the 2008 “Dalbar Mutual Fund Service Award” for excellence in customer service and was awarded “5-Star” performer status for the first two quarters of 2009 from National Quality Review.
- In 2009, the John Hancock Funds’ public Web site won “Outstanding Website” and the financial professional Web site won “Best Mutual Fund Website” from the Web Marketing Association.



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