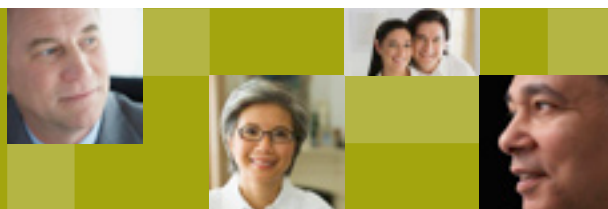


# Now everyone can have a Roth

What you should know about new IRA conversion rules



Starting in 2010, more than 20 million investors will — for the first time — be able to convert a traditional IRA to a Roth IRA. And all investors who convert in 2010 can delay payment of any federal taxes due on the conversion for a year, and then spread the payments equally over the next two years.

## What's changing?

Prior to 2010, if your modified adjusted gross income (MAGI) was more than \$100,000, the tax rules prevented you from converting your traditional IRA to a Roth IRA. Effective January 1, 2010, there is no earnings limit.

## Should I convert my traditional IRA?

Although converting a traditional IRA to a Roth IRA may not be right for all investors, it may be worth considering if you:

- Can leave the money in the account for five years or more *and* at least until you reach age 59½
- Expect tax rates to rise in the future and, as a result, would rather pay taxes now
- Can pay the resulting income taxes from a source other than the IRA so that the full amount of the traditional IRA goes into the Roth IRA to have the opportunity to grow until withdrawal

## Will I have to pay any taxes if I convert?

Yes, you will likely have to pay income tax on some or all of the conversion amount — contributions and growth in the traditional IRA that have not yet been taxed. And if you have more than one traditional IRA, you'll have to factor all of them (including employer-sponsored SEP and SIMPLE IRAs; but not including your spouse's IRAs) in the calculation to determine how much of the conversion amount will be taxable — ***even if you are not converting all of them.***

However, to help ease the tax pain, Congress has approved a special rule for conversions that are completed in 2010 only — you can pay half of the taxes when you file your 2011 tax return and the other half when you file your 2012 tax return. This special rule for 2010 may also appeal to you if paying the taxes was your main obstacle to converting.

## How can I get some help deciding what to do?

Conversion rules and tax calculations can be complicated, and state income-tax rules for conversions may differ from federal rules. Since a misstep could result in unforeseen income taxes or penalties, we encourage you to discuss conversion options with your tax consultant and your financial adviser.

## Why invest in a Roth IRA?

### • Tax-free withdrawals

Distributions are tax-free if you take them at least five years after your initial contribution or latest conversion *and* you are at least age 59½ or disabled or use the money for a first-home purchase (\$10,000 lifetime limit). Also, when you pass away, your beneficiaries can generally take tax-free withdrawals.

### • Tax diversification

If you have tax-free accounts (such as a Roth IRA) and tax-deferred accounts (such as a 401(k) plan or a traditional IRA), you'll have the income flexibility you may need during retirement as your tax rate rises or falls.

### • No RMDs

As the Roth IRA owner, required minimum distributions (RMDs) are not required during your lifetime.

### • Estate planning

Your beneficiaries will receive the money from your Roth IRA income-tax-free, but must begin taking RMDs after your death.

Investments are not FDIC-insured, nor are they deposits of or guaranteed by a bank or any other entity, so they may lose value.

# Why choose the American Funds?

Paying for retirement will most likely be the biggest expense you'll ever have. American Funds understands this. That's why we encourage you to consult with your financial adviser when investing in a traditional or Roth IRA.

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For nearly 80 years, American Funds has focused solely on providing our shareholders with consistent long-term results. This commitment has made us the investment of choice for millions of investors just like you. Each of the American Funds that you may choose for your traditional or Roth IRA reflects our strict investment philosophy:

- **A long-term, value-oriented approach:** American Funds seeks to buy securities at reasonable prices relative to their prospects and hold them for the long term.
- **An extensive global research effort:** American Funds investment professionals travel the world to find the best investment opportunities and gain a comprehensive understanding of companies and markets.
- **The multiple portfolio counselor system:** American Funds unique approach to portfolio management, developed 50 years ago, blends teamwork with individual accountability and has provided us with a sustainable method of achieving fund objectives.

- **Experienced investment professionals:** American Funds portfolio counselors have an average of 25 years of investment experience, providing a depth of knowledge and broad perspective that few organizations have.
- **A commitment to low management fees:** The American Funds provide exceptional value for shareholders, with management fees that are among the lowest in the mutual fund industry.

Ask your financial adviser how each of these factors benefits you as an American Funds shareholder. You can also learn more about the American Funds at [americanfunds.com](http://americanfunds.com).

Investors should carefully consider the objectives, risks, charges and expenses of the American Funds. This and other important information is contained in each fund's summary prospectus and/or prospectus, which can be obtained from a financial professional and should be read carefully before investing.

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## The Capital Group Companies

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