Roth Conversion Evaluator Methodology

The Roth Conversion Evaluator (hereafter "Evaluator") is intended for educational purposes only and should not be considered tax or investment advice. The Evaluator is designed to help investors who are planning for retirement determine, under various assumptions, whether conversion of their IRAs and/or other eligible tax-deferred workplace savings accounts into a Roth IRA may be financially advantageous. The Evaluator provides a rough estimate of the potential cumulative benefit or loss (after taxes) over the time period withdrawals are assumed to be taken, as a result of converting an amount selected by the user to a Roth IRA, as well as providing a corresponding estimate of the current federal and state income taxes of such a conversion. In addition, the Evaluator allows investors to perform sensitivity analysis, examining the potential effect of changes in some of the assumptions on the results.

The projections and other information generated by the Evaluator are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. The Evaluator is offered for use by Fidelity Brokerage Services LLC, a broker-dealer offering retail brokerage and insurance products and services.

Important: Unsettled transactions pending in any of your selected accounts at the time of your tool interaction may materially impact the value of that account available for potential conversion. For an unsettled equity purchase, the value may be materially overstated (and the investment risk understated due to cash remaining in the account), and for an unsettled equity sale, the value may be materially understated (and the investment risk overstated). Depending on the size and scope of such unsettled transactions, you may want to exclude the affected account(s) from your analysis or, if included, consider the reliability of the Evaluator's results.

For purposes of its analysis, the Evaluator is based on the presumption that the relevant measure of financial advantage is the net present value of after-tax distributions taken from the account during the withdrawal period. The Evaluator is designed to help investors determine whether converting their tax-deferred retirement accounts into a Roth IRA may support a higher level of spending during retirement than not converting. Note that this is not the same as determining whether conversion will increase the value of the account at the point of retirement, or determining whether conversion will increase the value of an account's remainder to the investor's beneficiaries. This is a critical distinction —users should know that **the Evaluator is designed for those who plan to make gradual, regular withdrawals from their tax-advantaged retirement accounts in question in order to support spending throughout retirement.** Other investors, such as those who plan to use proceeds of the account to make a single large purchase, or to use the account for estate-planning purposes, should understand that the information and estimates provided by the Evaluator may not be applicable or appropriate to them.

Analysis of the Roth conversion decision—by necessity—requires a variety of significant assumptions about the user's current and future financial situation, including future tax rates. As a result, it is impossible to make determinations with certainty using the Evaluator or any other Roth conversion analysis. Rather, the Evaluator is designed to provide general guidance on a course of action that, given the assumptions, may be preferable. It is possible that a course of action other than the one suggested by the Evaluator will ultimately prove optimal, if, for example, the user's situation changes dramatically and renders one or more of the Evaluator's assumptions or information entered by the user inapplicable. However, since it provides the ability to conduct some sensitivity analysis, the Evaluator may help a user to understand in advance what the potential effects of such changes might be. Thus, while the Evaluator cannot predict the future, it can help investors understand how changes and the unexpected might affect the Roth IRA conversion decision.

The Evaluator's assumptions are based in part on Fidelity's proprietary research, and the Evaluator is designed for investors whose financial situation is relatively simple and straightforward. It is not appropriate for all users, particularly those with special needs or with financial considerations that are more complex. While reasonable efforts are made to use and maintain the most current actual tax rates and income tax brackets for estimating taxes at the federal level and at the state level for all 50 states, there may be a time lag between when new actual tax rates and brackets become effective and when the Evaluator is updated to reflect them. Note that updated information for certain states may not become available until the middle of the applicable tax year. The most important assumptions used in the analysis provided by the Evaluator are listed below.

The Estimated Federal-State Marginal Tax Rate at Withdrawal (also known as the "future marginal tax rate." For the definition of "marginal tax rate," see the "Definitions" section).

The estimated marginal tax rate at withdrawal is the average combined federal and state marginal ordinary income tax rate expected during the entire period over which the investor intends to take withdrawals from the accounts being considered for conversion. State tax is based on your current state of residence. Since retirement savings accounts are usually intended to pay for retirement expenses, this withdrawal period will often roughly correspond with your retirement years, so the estimated marginal tax rate at withdrawal could also be thought of as the marginal tax rate expected over the course of retirement (i.e., the average over all the years following retirement). Note, while the Evaluator assumes that most withdrawals from an account being considered for conversion will take place during retirement, in actuality withdrawals and retirement may not necessarily coincide precisely.

In many cases, the estimated marginal tax rate at withdrawal is the single most important variable that an investor must estimate when deciding whether or not to convert a tax-deferred account into a Roth IRA. Generally speaking, investors who expect their estimated marginal tax rate at withdrawal to be higher than the current marginal tax rate tend to benefit from conversion; conversely, those who expect it to be significantly lower tend to be better off not converting. When the estimated marginal tax rate at withdrawal is not expected to be very different from the current marginal tax rate, other assumptions may assume greater importance in the conversion decision.

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The default value for the estimated federal-state marginal tax rate at withdrawal, which is used to estimate taxes on withdrawals taken during the withdrawal period, is automatically calculated and entered into the appropriate space by the Evaluator and is itself based on a number of assumptions. Federal and state taxes are subject to change at any time, and changes to them could render the Evaluator's analysis less appropriate.

Key Assumptions on Which the Estimated Federal-State Marginal Tax Rate at Withdrawal Is Based (for definition of marginal tax rate, see the "Definitions" section):

- Current federal ordinary income tax rates, capital gains tax rates, and the taxation of qualified dividend income at long-term capital gains tax rates will continue indefinitely and will not sunset as scheduled at the end of 2012. The current federal ordinary income tax rates are 10%, 15%, 25%, 28%, 33%, and 35%. The current federal long-term capital gains tax rates are 0% for those in the 10% and 15% tax brackets, and 15% for all the other tax brackets. If these rates were to sunset as scheduled, the 10% ordinary income tax rate would be eliminated, and the new rates would be 15%, 28%, 31%, 36%, and 39.6%. In addition, the long-term capital gains tax rates would increase to 10% and 20%, and qualified dividends would be taxed as ordinary income. The taxable income range associated with each tax rate is adjusted for inflation when the Evaluator estimates the tax rate applicable to hypothetical future income. These assumptions are consistent with Fidelity's other planning tools.
- The investor's current state of residence will be the same in the future, and future state tax rates will be the same as current ones. The taxable income associated with a state's tax rate is adjusted for inflation when the Evaluator estimates the tax rate applicable to hypothetical future income.
- The investor's total household income will grow at an annual average rate of 1.5% in real terms (i.e., after inflation) between the year of the conversion and the year in which withdrawals begin. For investors who are already taking withdrawals, the total household income they enter will be considered the same as their retirement spending level (see next bullet).
- The amount the investor will spend during the withdrawal period (the "retirement spending level") will be equal to 85% of the total household income just before beginning withdrawals. For investors who are already taking withdrawals, the total household income they enter will be considered the same as their retirement spending level. Investors are assumed to have sufficient sources of income to meet these spending levels.
- Some of an investor's income during the withdrawal period will be subject to income taxes and some will not be. The portion that is assumed to be taxable income depends on an investor's retirement spending level: the lower the retirement spending level, the smaller the assumed proportion of taxable income. For example, for those with a retirement spending level of $45,000 or less, the proportion of taxable income is assumed to be 39%, while for those with a retirement spending level of about $100,000, the proportion is 63%. The table to the right summarizes the assumed percentage of taxable income as a proportion of the retirement spending level:

Retirement Spending Level	Assumed Proportion of Taxable Income
$45,369 or less	39%
$73,631	55%
$99,769	63%
$114,431	74%
$138,444	78%
$162,456	80%
$186,469	82%
$216,059	83%
$241,878	83%
$265,997	84%
$291,816	84%
$316,784	84%
$340,903	85%
$365,872	85%
$390,841	86%
$415,809	86%
$440,778	86%
$466,597	86%
$490,716	86%
$504,077	88%
$527,505	88%
$550,933	89%
$574,361	89%
$597,789	89%
$621,217 or more	92%

Adjusting the Estimated Federal-State Marginal Tax Rate at Withdrawal

Since the estimated marginal tax rate at withdrawal is based on such a large number of assumptions, and since it has one of the largest effects on the Roth conversion analysis, investors have the opportunity to adjust the Evaluator's estimated marginal tax rate at withdrawal up or down from the default rate in order to observe the effect of alternative assumptions on the Evaluator's conversion analysis. The Evaluator estimates taxes using a progressive tax rate system rather than a flat tax rate system. If the estimated marginal tax rate at withdrawal is directly adjusted by the user, not only will that marginal tax rate be adjusted, but all the other tax rates will also be adjusted up or down by an identical amount to maintain that progressive nature. As a result, for any given estimated marginal tax rate at withdrawal, this adjustment to all tax rates will result in the Evaluator estimating a different tax cost and benefit analysis depending on whether the Evaluator estimated the marginal tax rate or whether the investor adjusted the rate. For

example, if the Evaluator estimated a federal marginal tax rate at withdrawal of 28%, the complete set of tax rates would be 10%, 15%, 25%, 28%, 33%, and 35%. If the Evaluator estimated a marginal tax rate of 25% and an investor increased it by 3%, to 28%, each tax rate would be increased by 3%, resulting in a set of tax rates that would be 13%, 18%, 28%, 31%, 36%, and 38%.

Some common reasons for adjusting the marginal tax rate at withdrawal lower or higher are:

- If the user believes there is a chance that, before or during retirement, he or she will move to a state and/or local domicile with higher or lower state income tax rates than the state he or she currently resides in.
- If the user believes that federal income tax rates are likely to rise or fall in the future.
- If the user feels that his or her real total household income is likely to rise significantly faster or slower than the 1.5% annual rate above inflation assumed by the Evaluator for the years before taking withdrawals, or that his or her retirement spending level is likely to differ significantly from the assumed 85% of total household income at the time just before beginning withdrawals, the potential effects of these changes can be estimated by changing the estimated marginal tax rate at withdrawal. For example, if an investor knows that his or her lifestyle is likely to be much more modest during the withdrawal period than before it, he or she may wish to reduce the estimated marginal tax rate at withdrawal below the default value, which reflects the assumption that his or her lifestyle will not change greatly after beginning withdrawals. Conversely, if the investor anticipates that real total household income is likely to rise faster than the 1.5% annual rate above inflation assumed by the Evaluator (and the withdrawal period is still many years away), he or she may wish to increase the estimated marginal tax rate at withdrawal above the default level.

The Estimated Federal-State Marginal Tax Rate at Conversion
(for definition of marginal tax rate, see the "Definitions" section)

This is generally the combined federal and state marginal ordinary income tax rate in effect during the year in which the conversion will be made. While many investors may have a reasonably good idea what their marginal tax rate will be for the current year, unexpected income windfalls (or shortfalls), changes in the federal tax code applied retroactively, and other factors can cause the Evaluator's estimation of the current marginal tax rate and resulting analysis to be inapplicable.

State Taxes

If the user elects to apply state taxes, the Evaluator assumes that all states' tax laws applicable to a Roth conversion conform with federal tax rules. Some important notes on estimated state taxes include the following:

- Some states may have special or different rules affecting the way state income tax on Roth conversions and/or the withdrawal of assets from qualified accounts is computed. For example, states may exempt some or all of their residents' retirement income from the computation of taxable income for state income tax purposes. Other states may fail to adopt federal guidelines on eligibility for Roth conversion, which means that residents who are fully eligible to convert under federal law could nonetheless be subject to state income tax penalties.
- Rates used to estimate state taxes may not be current, or deductions, credits, or adjustments may not be equivalent between state and federal rules.

Local and Other Taxes

The Evaluator does not consider any taxes other than those discussed above. For example, income taxes imposed by cities, townships, and counties are not taken into account.

Alternative Minimum Tax (AMT)

The Evaluator does not take into consideration any tax liability that may be due under the federal AMT unless the user indicates he or she expects to pay AMT, which activates the AMT override. For many Investors, the AMT can affect the federal marginal tax rate significantly, and thus have a meaningful effect on the tax liability associated with a Roth conversion.

An investor can use the Evaluator's AMT override to roughly approximate possible effects of the AMT on the tax cost of a Roth conversion. When activated, the AMT override conducts an additional calculation by multiplying the amount converted, less any basis, by a flat rate of 28%. If this approximation of potential AMT liability is higher than the federal tax cost computed under the conventional method (without the AMT override), then the AMT result is used as the federal tax cost. If the AMT result is lower, then the federal tax cost computed under the conventional method (without the AMT override) is used. In either case, the federal tax estimate is then added to the state tax estimate in order to arrive at the estimated tax cost of conversion. If the AMT result is used, then the combined marginal tax rate reported will be 28% plus the state marginal income tax rate (if any); otherwise, the AMT override will have no effect on the combined marginal tax rate. When using the AMT override, please keep in mind:

- Like all tax calculations performed by the Evaluator, the AMT override provides only a rough approximation of the possible effects of AMT on Roth conversion. The actual effects of AMT on the tax cost of a Roth conversion, which can be very complex, may differ significantly from the approximation provided by the Evaluator. In some scenarios, the actual effect of AMT on the federal tax liability will be less than that indicated by the AMT override.
- The AMT override does not affect the calculation of any federal tax liability except that associated with the Roth conversion itself. So, taxable income not associated with the conversion, such as the calculation of estimated taxes on withdrawals, does not take the AMT override into account.
- The AMT override does not affect the calculation of state income taxes at all. Some states do impose taxes similar to the federal AMT, but this is not considered by the AMT override or elsewhere in the Evaluator.

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The Conversion Amount

The Evaluator initially selects a default conversion amount that takes users up to, but not past, the edge of their current federal income tax bracket. This is because the current marginal tax rate generally determines the estimated tax cost of conversion; however, in some cases, the cost can be higher than the current marginal tax rate would suggest. Depending on the size of the conversion and the proximity of the investor's taxable income to the edge of the current tax bracket, a conversion might cause the investor's marginal tax rate for the current year to change, and in such cases the tax liability for conversion will be greater than the current marginal tax rate times the converted balance. Because of this, investors converting large amounts may instead wish to divide them and convert smaller amounts each year over several years to try and avoid paying potentially higher tax rates on conversion amounts that push them into a higher marginal tax bracket.

A decision to convert amounts over several years should also factor in potential additional taxes associated with waiting—for example, future earnings on unconverted amounts that increase the amount to convert, potentially higher future tax rates, or a promotion to a higher-paying job that pushes an investor into a higher tax bracket.

Adjusting the Current Federal-State Marginal Tax Rate and/or the Conversion Amount

Users can directly adjust the size of the conversion amount by using the slider on the "Consider How Much to Convert" page. Adjusting it allows the user to see the potential effects of converting different amounts. Users can indirectly change the default current marginal tax rate by adjusting either the estimated Deductions, Credits, and Adjustments field or the Total Household Income field. Adjusting the estimated Deductions, Credits, and Adjustments field keeps the retirement spending level consistent between scenarios. Changing the Total Household Income field will not only affect the current marginal tax rate but also the retirement spending level, which may cause the Evaluator to assume too little or too much taxable income during the withdrawal period.

Number of Years after Conversion that Investor Begins Withdrawals

The default value for the field, "In how many years after conversion would you begin withdrawals?" is based on the difference between the investor's age at conversion (or spouse's age, if older) and the age the Evaluator assumes the user (or spouse, if older) will begin needing the withdrawals. It is determined as follows for an investor not planning with a spouse:

- If age at conversion is 66 or younger and "not currently retired" is selected, the Evaluator defaults to the number of years until the user reaches age 67.
- If age at conversion is 67 or older, the Evaluator will default to zero because it assumes the user is already retired and will begin withdrawals immediately.
- If age at conversion is from 60 to 66 and "currently retired" is selected, the Evaluator defaults to zero because it assumes withdrawals will begin immediately.
- If age at conversion is 59 or younger, and "currently retired" is selected, the Evaluator assumes you want to avoid the 10% penalty that generally applies to withdrawals before age 59½ and defaults to the number of years until you reach 60.

If you are planning with a spouse, the Evaluator will use the same logic as above except that if the spouse is older, it will use the spouse's age rather than the user's age.

The user may overwrite the default value with any number zero or higher. However, because withdrawals from tax-advantaged retirement accounts before age 59½ are generally subject to a 10% early withdrawal penalty, and IRS regulations generally require investors in such accounts to begin taking required minimum distributions (RMDs) at approximately age 70½, users should consider avoiding any value that would result in withdrawals beginning before age 60 and later than age 71. For example, for a 53-year-old, nonretired user, the Evaluator would default to 14 (age 67 minus age 53) as the number of years until the investor begins withdrawals. The user could choose to overwrite this value; however, a value larger than 18 would imply that withdrawals begin at age 72 or later, which may be inconsistent with RMD rules, depending on the type of account and when the user actually retired.

Approximating Withdrawals under the IRS Required Minimum Distribution (RMD) Schedule

Users who plan to withdraw from their tax-deferred accounts only the minimum amount required by the IRS, regardless of their retirement income needs or their actual expected retirement age, can approximate the effects of the IRS RMD schedule by doing two things:

1) In the field for when withdrawals are to begin, they should enter a value that indicates they will begin at age 71. For a 53-year-old investor, that would be 18 (age 71 minus age 53). AND
2) In the field for the number of years of withdrawals, enter a value that indicates withdrawals will be taken until age 108. For anyone age 71 years or younger, that value would be 37 (age 108 minus age 71). Users already older than age 71 should enter the difference between age 108 and their current age.

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The Number of Years of Withdrawals

By default, the Evaluator assumes that the user is planning for a withdrawal period that lasts until the user is age 93, or until the younger spouse reaches age 93 if planning with a spouse, which is the average of the ages (age 92 for men and age 94 for women) at which 25% of individuals who are healthy at age 65 are projected to still be living (or, conversely, the age by which 75% of such individuals will be deceased). This figure is called a 25% longevity age. The source for this information is the Society of Actuaries' 2000 Individual Annuitant Mortality Table. The default value entered automatically by the Evaluator into the field labeled "How many years do you want withdrawals to last?" will be the number of years between when you (or a younger spouse, if applicable) reach age 93 and the year withdrawals are assumed to begin. The default value for the latter is explained in the section above, entitled "Number of Years after Conversion that Investor Begins Withdrawals."

Users who plan to withdraw from their tax-deferred accounts only the minimum amount required by the IRS should see the subsection immediately above, entitled "Approximating Withdrawals under the IRS Required Minimum Distribution (RMD) Schedule."

The Evaluator is generally not designed for users who enter a very small value for *Number of Years of Withdrawals* because it implies that the user will not use the assets in the account gradually, over the entire course of retirement, but rather over a relatively short time, or even all at once. If a very small value is entered, the Evaluator may produce distorted results because rapid withdrawals—if they come from an unconverted traditional IRA—can have a dramatic effect on the user's marginal income tax rate at the time of withdrawal.

The Asset Allocation and Hypothetical Fixed Annual Rate of Return

In calculating the estimated impact of converting to a Roth IRA, the Evaluator assumes a hypothetical fixed annual rate of return, based on the asset allocation chosen by the user, for the entire time period from conversion through the end of the withdrawal period for all assets invested in both tax-advantaged accounts and taxable brokerage accounts. Users choose from among six model asset allocations provided, each illustrating a hypothetical investment allocation and corresponding to a hypothetical fixed annual rate of return. The asset allocations and associated hypothetical fixed annual rates of return used by the Evaluator are based on Fidelity's proprietary research and are shown in the table on the next page.

Because equities are generally more volatile and involve more risk than bonds and short-term investments, and historically have had higher returns, the more aggressive the asset allocation, the greater the proportion of equity in it, and the greater the assumed hypothetical annual rate of return associated with it. The returns are hypothetical and do not represent the performance of any security. Individual investment results will vary. Of course, investing involves risk, including the risk of loss of principal.

Hypothetical returns shown are before taxes but after inflation. The effect of taxes on returns differs significantly depending on the type of account: Pretax contributions and any earnings in tax-deferred accounts are assumed to be taxed at ordinary income tax rates only when the assets are withdrawn, while allocations of after-tax (or nondeductible) contributions, if any, are not taxed when withdrawn. For withdrawals before age 59½, the Evaluator applies a 10% early withdrawal penalty on withdrawals from both tax-deferred accounts and Roth IRAs. Realized earnings on investments in taxable accounts, both before and during the withdrawal period, are assumed to be reduced by taxes on ordinary income, short-term capital gains, and long-term capital gains. The mix of these three types of income, which is based on proprietary assumptions, is static over the entire investment horizon.

The Evaluator will initially display an asset allocation for the user's consideration based on the number of years until withdrawals are expected to begin, as described above under the section "Number of Years after Conversion that Investor Begins Withdrawals." For example, if a user without a spouse enters an age at conversion of 45 and indicates he or she is not currently retired, the Evaluator would default to 22 years until withdrawals begin based on the assumption that they would begin at age 67 (67 – 45 = 22). Based on that 22 years, the Evaluator would default to an aggressive growth asset allocation. If that 45-year-old user indicated he or she was already in retirement, the Evaluator would default to the growth asset allocation, based on 15 years until withdrawals begin (default beginning withdrawal age of 60 minus age at conversion of 45). For users whose age at conversion is 67 or older, the Evaluator assumes they started taking withdrawals at age 67, which will result in a zero or negative number of years until beginning withdrawals for purposes of determining the default model asset allocation. For example, if a user is age 75, the Evaluator would calculate negative eight (–8) as the period until withdrawals begin (67 – 75 = –8), and default to the conservative asset allocation. Similarly, for users who indicate they are already retired and whose age at conversion is 60 to 66, the Evaluator will subtract 67 from that age, which results in a negative value for years until withdrawal begins for purposes of determining the model asset allocation. If planning with an older spouse, the default number of years until withdrawals begin is based on the older spouse's age, and that in turn will determine the default asset allocation.

Note that two of the asset allocations listed, short term and most aggressive, are not assigned by the Evaluator as defaults, but users may select them manually. These asset allocations are broadly similar to asset allocations used throughout the investment management industry, with younger investors typically assigned to the more aggressive asset class mixes that are composed mostly of equities, and older investors generally assigned to increasingly conservative mixes composed mostly of bonds and short-term investments as they approach and live in retirement.

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The Six Asset Allocations

Years until Withdrawals Begin*	Asset Allocation Name	Hypothetical Fixed Annual Rate of Return before Tax but after Inflation† 2.30%	Asset Allocation (Stocks/ Bonds/Short-term Investments)	Allocation May Be Appropriate For:
NA	Short Term	0.66%	0%/0%/100%	Investors who seek to preserve capital and can accept lower returns in exchange for price stability
–8 or less	*Conservative*	*3.34%*	*20%/50%/30%*	Investors who seek to minimize fluctuation in market values by taking an income-oriented approach with some potential for capital appreciation
–7 to 9	*Balanced*	*4.95%*	*50%/40%/10%*	Investors who seek the potential for capital appreciation and some growth, and who can withstand moderate fluctuation in market value
10 to 20	*Growth*	*5.64%*	*70%/25%/5%*	Investors who have a preference for growth and can withstand significant fluctuation in market value
21+	*Aggressive Growth*	*6.09%*	*85%/15%/0%*	Investors who seek aggressive growth and can tolerate wide fluctuation in market value, especially over the short term
NA	Most Aggressive	6.34%	100%/0%/0%	Investors who seek very aggressive growth and can tolerate very wide fluctuation in market values, especially over the short term

*If a user is already taking withdrawals and is over age 68, values will be negative. For more details, read the text above.

†The Evaluator presents its hypothetical benefit (or loss) of conversion over nonconversion in "real" or "current" dollars by removing the effects of projected inflation over time. Current dollars represent the cost/value of a future expense/value at the current time. For example, if something cost or was valued at $1,255 10 years in the future, then today its value would be $1,000 ($1,255 minus $255 [the value associated with 10 years of an assumed annual inflation rate of 2.30%]). As a result, the "nominal" hypothetical annual rate of returns in the chart would be higher due to the Evaluator's use of an assumed annual inflation rate of 2.30%. *The shaded values in italics indicate asset allocations that are assigned as defaults by the Evaluator.*

Important: These returns are hypothetical and do not represent the performance of any security. An investor's actual investment performance will vary over time and may be significantly different from that assumed by the Evaluator. Investors may earn more or less than the amounts shown and may experience investment loss.

Adjusting the Asset Allocation and Hypothetical Fixed Annual Rate of Return

Asset allocation and return assumptions can significantly affect the Evaluator's conversion analysis, so investors who feel that they are likely to invest more or less aggressively than indicated by the default asset allocation initially displayed should manually select one that they feel is more appropriate for them. In addition, investors who would like to gauge the potential effects of different hypothetical investment returns on the Roth conversion analysis may wish to model various asset allocations even if they think the default fairly represents their current asset allocation. For example, suppose that an investor who is 25 years from retirement, and who believes that the aggressive growth allocation fairly represents his or her risk tolerance, would like to see what would happen if the market performed worse than its associated hypothetical fixed annual rate of return. The user could select other, less aggressive allocations that have a lower hypothetical fixed annual rate of return associated with them. Also, a user who expects his or her risk tolerance to change over time should consider running scenarios using different asset allocations to see a range of the potential impact of converting to a Roth IRA.

After-Tax Contributions

Since income taxes have already been paid on after-tax (or nondeductible) contributions, they create "basis" in an account that is not subject to further income taxes. Roth contributions to a workplace savings plan are not counted as after-tax contributions. Roth contributions (and associated earnings) can be rolled over to a Roth IRA without conversion and should **not** be entered into any field in the Evaluator.

Note that the Evaluator assumes that any after-tax amounts provided will be converted on a pro rata basis. However, because tax rules may require that "basis" be allocated differently for different types of accounts, you are encouraged to consult your tax advisor.

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Fidelity Representatives can help you with using the Evaluator, but cannot provide tax advice. If you use the Evaluator on your own, you should run a separate analysis as indicated below. Note, however, that running a separate analysis for different accounts may underestimate your aggregate taxes because converting all the accounts at once may result in taxable income that pushes you into a higher tax bracket than the taxable income associated with converting any one account.

- If any of your non-Roth IRAs contains after-tax (or nondeductible) contributions, then all your non-Roth IRAs should generally be considered together, regardless of how much is converted and from which account. Tax rules generally require that a Roth conversion from an IRA include a pro rata allocation of taxable and after-tax amounts from across **all your** non-Roth IRAs. Balances in workplace savings plans [e.g., 401(k) or 403(b) plans], inherited IRAs, and IRAs registered to your spouse should **not** be combined with these IRAs.
- Similarly, if your spouse has any non-Roth IRAs that contain after-tax contributions, all his or her IRAs should also be analyzed as described above, but separately from your IRAs.
- If any 401(k), 403(b), or similar workplace savings plan account contains after-tax non-Roth contributions, the account should be analyzed separately because "basis" should be calculated with respect to each plan account. If you are converting only a portion of your plan account balance, the Evaluator's pro rata method of estimating basis may not be appropriate, because tax rules for these accounts might require basis to be calculated using a complicated methodology that considers the years in which contributions were made and whether the unconverted amount is left in the plan, withdrawn as a taxable distribution, or rolled over to a tax-deferred account. If you also have workplace savings plans that have no after-tax non-Roth contributions, you may consider those plan accounts together, since there will be no "basis" in them.
- Generally, you cannot convert assets in your current workplace saving plans until a distributable event occurs. Generally, reaching normal retirement age (age 65 for many plans) or no longer working for the company sponsoring the plan is considered a distributable event. Consult your plan documents regarding your plan rules.

Definitions

Total Household Income:
This includes all forms of income to a household, even sources of income like municipal bond interest and pretax contributions to 401(k)s that are not ordinarily taxable. For those familiar with the Tax Code, this is a broader definition than "gross income" as defined by the Tax Code. The Evaluator assumes that the investor's total household income will grow at an annual average rate of 1.5% in real terms (i.e., above inflation) between the current year and the year in which withdrawals begin. The Evaluator also assumes that the amount the investor will spend during the withdrawal period (the "retirement spending level") will be equal to 85% of the total household income just before beginning withdrawals. For investors who are already taking withdrawals, the total household income they enter will be considered the same as their retirement spending level.

Marginal Tax Rate:
Your marginal tax rate, also known as your tax bracket, is the combined federal and state income tax rate that would apply if you were to earn one more dollar of taxable income during the applicable tax year. Note that the marginal tax rate is determined by your taxable income, not the estimated total household income. The difference between the two is accounted for by deductions, credits, and adjustments. See the main text of the methodology for further details about the current and future marginal tax rates and adjusting them.

Taxable Income:
Taxable income is the amount that remains after all deductions, credits, and adjustments. have been subtracted from total household income. This is the income that is used to determine an investor's marginal tax rate.

Deductions, Credits, and Adjustments:
This includes anything that reduces the taxable portion of your total household income, such as exemptions, deductions, nontaxable income, pretax withholdings [such as deductible or pretax contributions to an IRA, 401(k), or HSA], or returns of principal. For those familiar with the Tax Code, this value, when subtracted from the total household income, is designed to yield a reasonable estimate of taxable income, but not a precise figure.

Retirement Spending Level:
This represents the amount of annual spending that the investor will need in order to support his or her lifestyle during retirement. Note that for investors who are not yet making withdrawals, the retirement spending level—which is composed of various elements, including income, capital gains, and returns of principal—is not the same as total household income. For those investors, the retirement spending level assumed by the Evaluator will be equal to 85% of their estimated total household income just before beginning withdrawals. For investors who are already taking withdrawals, the total household income they enter will be considered the same as their retirement spending level. The Evaluator assumes that all investors will have sufficient sources of income during the withdrawal period to meet these spending levels.

Accounts Eligible for Conversion to a Roth IRA:
Traditional IRAs (including rollover IRAs), SEP-IRAs, SAR-SEP IRAs, and SIMPLE IRAs are all eligible to be converted to a Roth IRA (SIMPLE IRA contributions cannot be converted to a Roth IRA during the first two years). Rollover IRAs containing assets from an employer-sponsored plan account are also eligible to be converted. In addition, balances from employer-sponsored savings plans [e.g., a 401(k) or 403(b) plan] that are eligible for distribution and rollover may generally be converted (for example, if you are no longer working for the company sponsoring the plan).

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