



IRAs: Powering Your Retirement

One of the most effective ways to build and manage funds to help you meet your financial goals is through an Individual Retirement Account (IRA).

An IRA can put you in control of your retirement, whether you are saving for your future retirement, currently retired—or somewhere in between. Depending on your earned income and age, you can use your IRA to catch up on your retirement savings by setting aside up to \$6,000 in a tax-advantaged account. When you retire, an IRA is an excellent way to consolidate your retirement savings into one account so you can manage your investments and distributions more efficiently.

In addition, the power of an IRA expands beyond retirement to help you achieve numerous financial goals, such as:

- Estate Planning
- Education Funding
- First-time Home Purchase
- Charitable Gifting
- Payment for Extraordinary Medical and Disability Expenses

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Regardless of whether you choose a Traditional or Roth IRA, the potential for tax-deferred growth of your IRA funds can help you save more for retirement.

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While the Traditional IRA may offer you a current tax deduction, the Roth IRA can provide tax-free withdrawals at retirement.

But how do you choose if a Traditional or Roth IRA is right for you?

TRADITIONAL AND ROTH IRAS: YOUR CHOICE

For over a quarter of a century, the Traditional IRA has been one of the most popular savings vehicles for retirement savings. Contributions made to this account may be tax-deductible and have the potential to reach substantial amounts over time through tax-deferred growth. An IRA can help American families realize their dreams of a comfortable retirement and, in some cases, of financing a college education and owning a home.

The Roth IRA is an alternative savings vehicle created by the Taxpayer Relief Act of 1997.

Similar to the Traditional IRA, Roth IRAs can be an effective way to build funds for retirement or other intermediate and long-term financial goals. However, a Roth IRA is different from a Traditional IRA in that the account is funded with after-tax contributions, and provides for tax-free distributions during retirement with no required minimum distributions at age 70½.

Eligibility

If you or your spouse have earned income, you may contribute to a Traditional IRA as long as you have not reached age 70½ by the end of the contribution year. Contributions to a Roth IRA may continue beyond age 70½.

To see if you may open and contribute fully to a Roth IRA, check the chart on page 6.

If you aren't eligible to contribute to a Roth IRA, you can convert existing retirement savings in a Traditional IRA or a former employer's retirement plan to a Roth IRA. For more details on whether a Roth Conversion is appropriate for you, see page 7.

Maximum Contribution

The annual maximum contribution is \$5,000 or 100% of earned income, whichever is less. The annual catch-up contribution for individuals age 50 and older is \$1,000, allowing them to increase their annual contribution to \$6,000.

TRADITIONAL AND ROTH IRA CONTRIBUTION LIMITS*

Year	General Limit	Catch-Up Amount	Total Contribution with Catch-up
2010 and 2011	\$5,000	\$1,000	\$6,000

Source: Internal Revenue Service, 2011.

* Maximum annual contribution to either a Traditional IRA or Roth IRA, or a combination of the two.

IRAS: THE TAX ADVANTAGED WAY TO SAVE

Regardless of whether you choose a Traditional or Roth IRA, the potential for tax-deferred growth of your IRA funds gives you the potential to save more for retirement, on an after-tax basis, than the same amount of funds in an account that generates taxable income each year.



ASSUMPTIONS

\$5,000 annual IRA contribution

6% rate of return

25% ordinary income tax bracket

Source: Morgan Stanley Smith Barney. For illustrative purposes only. Not representative of any specific investment.

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TRADITIONAL IRAS: 2010 & 2011 DEDUCTIBILITY OF CONTRIBUTIONS

If you are covered by a retirement plan at work, use this table to determine if your modified AGI affects the amount of your deduction.

IF YOUR FILING STATUS IS...	AND YOUR MAGI IS...	THEN YOU CAN TAKE...
single or head of household	\$56,000 or less in 2010 and 2011 more than \$56,000 but less than \$66,000 in 2010 and 2011 \$66,000 or more in 2010 and 2011	a full deduction up to the amount of your contribution limit. a partial deduction. no deduction.
married filing jointly or qualifying widow(er)	\$89,000 or less in 2010, \$90,000 or less in 2011 more than \$89,000 but less than \$109,000 in 2010, more than \$90,000 but less than \$110,000 in 2011 \$109,000 or more in 2010, \$110,000 or more in 2011	a full deduction up to the amount of your contribution limit. a partial deduction. no deduction.
married filing separately	less than \$10,000 \$10,000 or more	a partial deduction. no deduction.

If you file separately and did not live with your spouse at any time during the year, your IRA deduction is determined under the "Single" filing status.

TRADITIONAL IRAS: 2010 & 2011 DEDUCTIBILITY OF CONTRIBUTIONS

If you are not covered by a retirement plan at work, use this table to determine if your MAGI affects the amount of your deduction.

IF YOUR FILING STATUS IS...	AND YOUR MAGI IS...	THEN YOU CAN TAKE...
single, head of household, or qualifying widow(er)	any amount	a full deduction up to the amount of your contribution limit.
married filing jointly or separately with a spouse who is not covered by a plan at work	any amount	a full deduction up to the amount of your contribution limit.
married filing jointly with a spouse who is covered by a plan at work	\$167,000 or less in 2010, \$169,000 or less in 2011 more than \$167,000 but less than \$177,000 in 2010, more than \$169,000 but less than \$179,000 in 2011 \$177,000 or more in 2010, \$179,000 or more in 2011	a full deduction up to the amount of your contribution limit. a partial deduction. no deduction.
married filing separately with a spouse who is covered by a plan at work	less than \$10,000 \$10,000 or more	a partial deduction. no deduction.

If you file separately and did not live with your spouse at any time during the year, your IRA deduction is determined under the "Single" filing status.

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ROTH IRAS: 2010 & 2011 CONTRIBUTION LIMITS—EFFECT OF MODIFIED AGI ON ROTH CONTRIBUTIONS

This table shows whether your contribution to a Roth IRA is affected by the amount of your modified AGI as computed for Roth IRA purpose.

IF YOU HAVE TAXABLE COMPENSATION AND YOUR FILING STATUS IS...	AND YOUR MODIFIED AGI IS...	THEN...
married filing jointly or qualifying widow(er)	Less than \$167,000 in 2010 less than \$169,000 in 2011	you can contribute up to the limit.
	at least \$167,000 but less than \$177,000 in 2010 at least \$169,000, but less than \$179,000 in 2011	the amount you can contribute is reduced.
	\$177,000 or more in 2010 \$179,000 or more in 2011	you cannot contribute to a Roth IRA.
married filing separately and you lived with your spouse at any time during the year	zero (-0-) in 2010 or 2011	you can contribute up to the limit.
	more than zero (-0-) but less than \$10,000 in 2010 or 2011	the amount you can contribute is reduced.
	\$10,000 or more in 2010 or 2011	you cannot contribute to a Roth IRA.
Single, head of household, or married filing separately and you did not live with your spouse at any time during the year	less than \$105,000 in 2010 less than \$107,000 in 2011	you can contribute up to the limit
	at least \$105,000 but less than \$120,00 in 2010 at least \$107,000 but less than \$122,000 in 2011	the amount you can contribute is reduced.
	\$120,000 or more in 2010 \$122,000 or more in 2011	you cannot contribute to a Roth IRA.

TRADITIONAL AND ROTH IRAS: HOW TO DECIDE

When establishing an IRA, how do you choose between the current benefits of a tax-deductible Traditional IRA and the future tax-free income of a Roth IRA at retirement? Factors to consider include your age, current and projected tax brackets, potential growth rates and whether you and/or your spouse are covered by a retirement plan at work. A Morgan Stanley Smith Barney Financial Advisor would be pleased to produce an analysis for you that shows the anticipated growth of a contribution to both a Traditional IRA and to a Roth IRA. Some additional helpful guidelines are:

Fund a Traditional IRA When:

- Your modified AGI is more than \$105,000 (single) or \$167,000 (joint) in 2010 or more than \$107,000 (single) or \$169,000 (joint) in 2011 and you will not be able to make a full contribution to a Roth IRA.
- You are eligible for an income tax deduction on your Traditional IRA contribution and you expect to be in a lower tax bracket in retirement.

Fund a Roth IRA When:

- You are not eligible for a deduction on a Traditional IRA.
- You are eligible for an income tax deduction on a Traditional IRA contribution, but expect to be in a higher tax bracket in retirement.

Convert to a Roth IRA When:

- Your Traditional IRA is comprised mostly of nondeductible contributions or has little or no growth, making your tax liability on the conversion low.
- You are able to pay the tax liability incurred on the Roth IRA conversion with funds outside the IRA.

- How far away from retirement are you? The longer your time horizon, the more time your Roth IRA will have to recover from the taxes paid at conversion and the longer the account will benefit from years of potential tax-free growth.
- If you think tax rates will increase or that you may be in a higher tax bracket in retirement, you may prefer to pay taxes now on your retirement savings, rather than in retirement.

Important factors to consider when converting to a Roth IRA:

- You will need to pay taxes on the taxable amount (including deductible contributions and earnings) when you convert, but the premature distribution penalty won't apply.
- It's important to identify funds outside your current retirement plan that can be used to pay the taxes due on the conversion to a Roth IRA. Tapping into the amount converted from a Traditional IRA or employer-sponsored retirement plan to pay taxes will reduce the amount available in the Roth IRA to potentially earn tax-free income—and trigger a 10% penalty if you're under age 59½ (unless an exception to the penalty tax is available).
- If you have pre-tax and after-tax funds in a Traditional IRA, there are certain rules that determine how these funds can be converted. Your tax advisor can help you determine which funds can be converted and the amount of taxes due on a conversion.

If the investment markets decline after conversion, resulting in a decrease in the value of the converted assets, you have the option of recharacterizing the account back to a Traditional IRA, in essence, undoing the conversion. The Roth IRA recharacterization must be completed by your tax-filing deadline plus extensions for the year of conversion.

IRAs: Powering Your Retirement

Get Help Making Your Decision

To help you understand how a Roth conversion may impact your financial scenario, a Morgan Stanley Smith Barney Financial Advisor can provide a personal Roth Conversion Illustration Report for you. This report explores your specific situation, factoring in such variables as the amount to be converted, the distribution year, your date of birth and where you are in the retirement planning cycle. Based on this input, the report shows the after-tax future value of an IRA balance, comparing the outcomes of a Traditional IRA with those of a Roth IRA. You'll also be able to see the wealth planning advantages of "stretching" a Roth IRA over multiple generations. Finally, as with all tax related issues, you should also discuss your situation with your tax advisor.

TRADITIONAL IRAS: TAXES AND PENALTIES ON DISTRIBUTIONS

Generally, all distributions from Traditional IRAs are subject to income taxes, except for the portion attributed to non-deductible contributions.

For distributions taken before age 59½, a 10% penalty is assessed, except for:

- Disability
- Distributions to beneficiaries upon IRA holder's death
- Medical expenses exceeding 7.5% of AGI
- The purchase of medical insurance after receiving unemployment compensation for more than 12 weeks
- Qualified education expenses for the IRA holder or immediate family
- Purchase of first home (\$10,000 lifetime limit)
- Withdrawals under a Substantially Equal Periodic Payments schedule
- Portion of the distributions consisting of non-deductible contributions

Required Minimum Distributions

Upon reaching age 70½, annual required minimum distributions must begin from a Traditional IRA. The first distribution, however, may be postponed until April 1 of the following year.

ROTH IRAS: TAXES AND PENALTIES ON WITHDRAWALS

With a Roth IRA, contributions can be withdrawn tax-free at any time, while earnings can be withdrawn tax-free if certain conditions are met.

Tax-Free Withdrawals

For the purpose of taxation, all distributions are considered to come from contributions first and earnings last. Since contributions are non-deductible, they are tax-free and penalty-free upon withdrawal at any time. Accumulated earnings may be subject to taxation according to the following rules.

Tax-free and penalty-free if held for five years or more and any one of the following:

- over age 59½
- used for first-time home ownership (\$10,000 lifetime limit)
- due to disability
- distributed to beneficiaries upon IRA holder's death

Ordinary income tax on earnings when:

- one of the above exceptions applies but account is held for less than five years
- used for qualified higher-education expenses incurred by the IRA holder or an immediate family member
- used to cover medical expenses exceeding 7.5% of AGI
- used to purchase health insurance after receiving unemployment compensation for more than 12 weeks

%qualified

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FOUR WAYS TO POWER UP YOUR IRA POTENTIAL

Once you have decided which IRA is right for you, the next step is to ensure you take full advantage of the benefits these vehicles can provide. Consider one or more of the following suggestions:

1. Baby Boomers Can Play “Catch-up”

The “catch-up” contributions give many Baby Boomers approaching retirement the ability to make up for missed contributions. To be eligible, you must turn 50 by the end of the contribution year, not necessarily when the contribution is made. For example, an IRA holder who turns age 50 on December 31, 2011, will be eligible for a \$6,000 contribution in 2011, even if the funds are deposited earlier in the year.

2. Double the Family Nest Egg with Spousal Contributions

Spousal contributions are a way for a wage earner to put aside funds for a non-working spouse’s retirement. For example, in 2011, a couple may contribute a combined \$10,000 (\$5,000 maximum in each spouse’s IRA), or when both are age 50 by year-end, \$12,000 (\$6,000 maximum in each spouse’s IRA). One spouse must earn at least as much as the combined contributions.

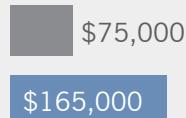
3. Take Advantage of an Early Start

Investing more money at an earlier age will give your retirement assets more time to grow.

The following example shows the potential value of contributing to an IRA early in one’s career. Because of the tax-deferred compounding of IRA contributions, this 21-year-old who contributed the maximum amount of \$5,000 annually to an IRA for 15 years at a 6% hypothetical annual rate of return, saved 50% more with half the number of contributions as someone who started contributing later in life (\$5,000 until age 50; \$6,000 afterwards).

VALUE IN STARTING AN IRA EARLY

TOTAL IRA CONTRIBUTIONS



TOTAL SAVINGS AT AGE 65



Assumption: 6% annual rate of return.

Source: Morgan Stanley Smith Barney. For illustrative purposes only. Not representative of any specific investment.

4. Fund Your IRA Early in the Year

While the deadline to make your IRA contribution is April 15 of the next year, you can fund your IRA as early as January 1 of the current year. By doing so, you will capture an additional 15 months’ worth of interest or earnings. Over time, this can result in a dramatic difference.

In the following example, Mary makes her annual IRA contributions on January 1, while John waits until April 15 of the following year. If they both contribute \$5,000 annually for 30 years, and earn a hypothetical 6% rate of return, Mary can accumulate over \$7,000 more just for funding early.

ADDED VALUE IN EARLY ANNUAL CONTRIBUTIONS

MARY	\$433,041
JOHN	\$425,863

Assumption: 6% annual rate of return.

Source: Morgan Stanley Smith Barney. For illustrative purposes only. Not representative of any specific investment.

MANAGING YOUR IRA

Consider Consolidation

If you're like most people, you probably have multiple retirement accounts—IRAs you may have opened over the years or account balances you may have left in the plans of former employers. Together, these assets may represent a significant sum. There are good reasons to consider consolidating them all in an IRA at Morgan Stanley Smith Barney:

- **Comprehensive investment strategy**—It can be difficult to maintain an effective investment strategy—one that accurately reflects your goals, timing and risk tolerance—when assets are spread among multiple financial institutions. When you consolidate, your Morgan Stanley Smith Barney Financial Advisor can help you ensure that these assets are part of your overall asset allocation* strategy that is reflective of your current financial situation and long-term retirement goals.

- **Greater investment flexibility**—

A self-directed IRA like the one offered by Morgan Stanley Smith Barney generally offers you the ability to choose from a wide range of investment products, including stocks, bonds, mutual funds, annuities and more.

- **Simplified tracking**—It is easier to monitor your progress and investment

results when all your retirement savings are in one place, because you will receive one statement instead of several. That simplifies your life while protecting the environment.

- **Lower costs**—Reducing the number of accounts you own may also reduce your account fees and other investment-related charges.

Dealing with one account rather than several also simplifies the distribution process—including complying with complex minimum distribution rules when you reach age 70½. And you avoid the risk of losing track of your retirement accounts or access to the account assets should your former employer merge with another company or go out of business.

Consolidating Your IRAs: Transfers and Rollovers

If you wish to consolidate your IRA assets at Morgan Stanley Smith Barney, moving your IRA may be accomplished by initiating an:

1. IRA Transfer—You may instruct your current IRA custodian to transfer cash and/or securities directly to Morgan Stanley Smith Barney. You may elect unlimited transfers within one year.

2. IRA Rollover—Under this option, your current IRA custodian will distribute cash and/or securities directly to you. Within 60 calendar days, you must deposit the same

assets into your new IRA. Failure to deposit your IRA distribution within the 60-day window will result in ordinary income taxes and a possible 10% penalty on the taxable portion of the distribution. This option is only available once during any 12-month period for each IRA.

About Your IRA Statements

- Withdrawals are clearly marked. Federal taxes withheld from withdrawals are shown.
- Minimum distribution requirements are indicated for assets held within IRAs at Morgan Stanley Smith Barney.
- Transfers and rollovers from outside accounts are shown in a separate category.
- Year-end fair market values of IRA assets are displayed.
- Statements are sent out quarterly, or monthly if there is activity in the account during that month.

How to Get Started

A Morgan Stanley Smith Barney Financial Advisor can help you assess your alternatives so you can make decisions based on what's best for you. Make an appointment now to discuss your overall retirement strategy and to learn how consolidating your retirement accounts to an IRA at Morgan Stanley Smith Barney can help simplify the retirement investing process.

*Asset allocation does not assure a profit or protect against loss in a declining market.

	THE TRADITIONAL IRA	THE ROTH IRA
Who May Establish?	An individual who has earned income or whose spouse has earned income.	An individual who has earned income or whose spouse has earned income.
Age Limits	Must be under age 70½.	No age limits.
Contribution Eligibility (2010 & 2011)	Contribution is permitted if the individual has not reached age 70½ by the end of the contribution year.	<ul style="list-style-type: none"> Full contribution when modified AGI is less than \$105,000 (single) or \$166,000 (joint) for 2010, less than \$107,000 (single) or \$169,000 (joint) for 2011. Partial contribution when modified AGI is \$105,000-\$120,000 (single) or \$167,000-\$177,000 (joint) for 2010, \$107,000-\$122,000 (single) or \$169,000-\$179,000 (joint) for 2011.
Annual Contribution Limits (2010 & 2011)*	\$5,000* or 100% of earned income, whichever is less. \$6,000 if age 50 or older.	\$5,000* or 100% of earned income, whichever is less. \$6,000 if age 50 or older.
Deductibility (2010 & 2011)	Deductibility of contributions depends upon annual income and coverage by a retirement plan at work. (Please see tables on pages 4 and 5 for deductibility rules.)	All contributions are non-deductible.
Required Minimum Distributions	Begin the year in which individual turns age 70½. The first distribution may be postponed to April 1 of the following year.	No distributions are required during life of owner or spouse beneficiary. Other beneficiaries must commence periodic distributions not later than December 31 of year following death

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