Financial Planning Insights
ROTH IRA Conversions

ROTH IRAs provide several advantages over traditional IRAs:
1. Growth is tax-free, not tax-deferred
2. No required minimum distributions (RMDs) when the account owner becomes 70½

Contributions to ROTH IRAs are not tax-deductible. You make contributions with after-tax funds.

Similarly, if you convert a traditional IRA to a ROTH IRA, you must pay taxes on the taxable amount that you convert. After converting to a ROTH IRA, however, all future growth is tax-free and there are no RMDs for the account owner.

Not everyone can convert to a ROTH IRA. Until 2010, the IRS requires that:
1. The taxpayer's modified adjusted gross income (MAGI) is $100,000 or less, and
2. If married, taxpayers must file a joint tax return for the year of the conversion.

In 2010, the AGI limitation is removed and taxpayers may elect to spread the conversion income evenly between tax years 2011 and 2012.

For those who <u>can</u> convert funds from their traditional IRA to a ROTH IRA, there are other considerations:
1. Are you in a lower tax bracket now than you anticipate you (or your beneficiaries) would be when otherwise taking taxable distributions from your traditional IRA?
2. Do you expect that you will leave the converted funds in your ROTH IRA for at least ten years before you, or your beneficiaries, begin withdrawals?
3. Can you afford to pay the taxes associated with a conversion with funds outside your traditional IRA?

If you answered "Yes" to all of these qualifications and considerations, then converting some portion of your traditional IRA accounts to a ROTH IRA may make sense for you. Remember, you do not have to convert <u>all</u> of the funds in your traditional IRAs to a ROTH IRA in a given tax year. In fact, it often makes sense to spread planned conversions over a number of tax years in order to keep the taxes associated with conversion within your current marginal tax bracket.

Roth conversions can be reversed or "recharacterized" up to October 15 of the year <u>after</u> the conversion for any reason. This enables you to adjust the amount converted, after you know the tax bracket you are in and how much conversion income you want to realize.

Finally, there are estate planning considerations that may make a ROTH conversion desirable:
1. Paying the taxes associated with a ROTH conversion to reduce a taxable estate, or
2. If you have named a trust as your IRA beneficiary and plan to accumulate RMDs in the trust for controlled distribution to the trust beneficiaries, a ROTH IRA avoids the high income tax rates associated with trusts.

If you would like to discuss this issue, or other financial planning issues, in the context of your unique circumstances and requirements, please contact me.

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