

# Should I Convert To A Roth IRA?

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Up until now, families with modified adjusted gross income above \$100,000 could not convert their traditional IRAs to a Roth IRA even if they wanted to. That changes starting January 1, 2010 as the income limitation is eliminated. But does it make sense to convert?

There is no easy answer to this question and this update is not going to provide one. One person with exactly the same balance sheet as another may come to a different conclusion simply because of different goals, aspirations, and human nature.

First lets review. The concept of a Roth IRA is relatively straightforward. On the portion of the traditional IRA you convert, that dollar amount will be added to your income and you will pay taxes at your marginal tax rate. Then when it is time to take a withdrawal, assuming it is a qualified distribution, the distribution will be tax-free.

So, if one has a \$20,000 IRA they want to convert to a Roth IRA that \$20,000 would be added to their income in the year of conversion and taxes would be paid. Future distributions (assuming they are qualified) will be tax-free.



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Another key advantage of a Roth IRA, is that there are no required minimum distributions that start at 70 1/2. You never have to take a distribution if you do not want. For those that do not have to live off of their IRA assets, this becomes an extremely powerful estate planning tool.

Even if you do need to take distributions to live off, your distributions will be less compared to a traditional IRA since you must pay taxes out of any traditional IRA distribution. A lower distribution is a great comfort to many retirees.

One does not have to convert their entire account balance at once but can do so incrementally over many years. Alternatively, there may be situations when converting the entire balance at once makes sense. For example, if the market value of your traditional IRA is down (and you expect it to rebound) and/or your tax rate in a given year is lower than normal may provide an opportune time to convert your traditional IRA.

Note that for conversions that take place in 2010, the tax payments can be spread out over two years. Normally, however, the full tax payment is due in the year of conversion.

There are some general “touchstones” that individuals should consider when thinking about converting to a Roth IRA

- If tax rates are increasing conversions are likely to make more sense.
- Conversions are likely better for the person who does not need the funds to live off.
- Conversions are generally better for the person who has outside funds to pay the taxes.
- Conversions for a person with an estate tax problem will probably make more sense than for a person without an estate tax issue.
- Conversion for a person with a Net Operating Loss (NOL ) or other carryforward may make sense.

Conversions to a Roth IRA should not be taken lightly. There are many rules and regulations that govern Roth IRA's and you want to make sure you fully understand the ramifications of the decision. We strongly encourage you to contact us if you are interested in discussing the pros/cons of converting to a Roth IRA.