

Roth IRA Opportunities for 2010

With taxes expected to increase in the future, many people are concerned about giving even more of their hard earned dollars to the government. This is especially true in retirement, when many years of compound gains on traditional IRA and 401k accounts, will result in compound tax when that money is withdrawn to supplement retirement income. Some people are converting their traditional IRAs, 401ks, or SEP accounts to Roth accounts because the Roth allows for tax deferred accumulation and TAX-FREE income. In the past, not everyone has had the option to convert (due to income limitations), but in 2010 everyone may.

More people will be asking: “Is it better to keep my traditional IRA, or should I convert to a Roth IRA?”

The answer depends on your goals with regard to 1) current income tax results, 2) retirement income needs, 3) family wealth distribution, 4) and tax timing. A conversion is a big financial decision. In most cases, it means paying income taxes on the entire IRA balance to be converted. So, why would anyone ever choose to convert a traditional IRA to a Roth IRA?

Like a traditional IRA, a Roth IRA accumulates on a tax deferred basis. Unlike a traditional IRA, qualifying distributions from a Roth are federal income tax-free. Further, during the owner’s lifetime, no minimum distributions (RMDs) from the Roth IRA are required.

With the new rules that are in effect now, taxpayers with incomes of more than \$100,000 will be able to convert a traditional IRA into a Roth. Prior to 2010, an income in excess of \$100,000 would disqualify you from conversion to a Roth.

For IRAs converted to a Roth IRA in 2010 the taxes due as a result of the conversion may be paid at the time of the conversion, or spread out over two years AFTER the conversion. It is important to note that the taxes due will be based on the tax rates in effect at the time of payment, and tax rates may be higher or lower than those in effect at the time of the conversion. So you’ll need to consult with your tax advisor to discuss which payment option is best for your personal tax situation.

Who should consider this? You may want to consider converting a traditional IRA to a Roth IRA in the following situations:

- 1) You expect your IRA to grow substantially, and you would prefer to pay taxes on the lower current balance instead of on the expected larger future amount.
- 2) You expect that your post-retirement income tax bracket will be the same or higher than the current one.
- 3) You expect to live for a long time after conversion, and you do not want to have to take distributions (RMDs) from the IRA if they are not needed – preserving the money to be for the ultimate (tax-free) benefit of your family.
- 4) You have funds available (outside of the IRA) to pay the additional income taxes when the conversion occurs.

Does a Roth conversion make sense for everyone? No. Call us for help making that decision. Call 317-852-9153 or toll free 1-877-888-9153 to review the Roth conversion opportunity relative to your personal situation.

Remember, that converting your traditional IRA to a Roth IRA is a taxable event and could result in additional impact to your personal tax situation, including the taxation of current social security benefits. It is generally preferable that you have funds to pay taxes due on conversion from funds outside of your IRA. If you elect to take a distribution from your IRA to pay the conversion taxes, keep in mind that there may be other consequences (such as IRS penalties for premature distribution if you are not 59 ½).

Now, having said all this – just think how powerful it would be to have at least some of your money working in an environment where it would: 1) accumulate tax-free, 2) receive market linked interest while protecting your principal and credited earnings from market downturns, 3) provide *tax-free lifetime income* for you and your spouse, 4) and result in an income tax-free benefit for your heirs, that could potentially be stretched over their lifetimes as well (through a multi-generation distribution option). Is this an opportunity? Absolutely! Is it an opportunity that makes sense for you? I don't know the answer to that, of course. But we're here to help, so just give us a call.