

# Roth conversion — is it the right choice for you?



Wealth Management

A Roth IRA can be attractive to taxpayers because qualifying distributions are tax-free, account owners are not subject to required minimum distribution (RMD) rules, and they provide tax and estate planning flexibility.

The assets you convert are subject to federal and possibly state income tax for the year you convert (to the extent that the converted amount represents pre-tax assets). However, the converted amount is not subject to a 10% premature distribution penalty no matter what your age is.

However, the fact that you qualify to convert assets to a Roth IRA doesn't necessarily mean that you should.

For example: If you intend on leaving your IRA assets to your heirs, a Roth IRA is a very efficient way to do this. However, if your IRA assets will be used for charitable intentions you may want to leave the assets in a traditional IRA.

The following key questions can help you evaluate whether converting to a Roth IRA might make sense for you.

Do you have funds outside of your IRA to pay the tax bill from the conversion? It is best to use non-retirement assets for your tax bill from the conversion.  Yes  No

If you use IRA assets to pay the tax bill and you are under age 59½, not only will you be taxed on the dollars, you will generally owe a 10% penalty tax on the distribution. Plus you'll permanently lose the tax-free Roth IRA growth on that amount.

If you answered "No" to the above question, a Roth conversion will generally not be advisable. However, if you are a young investor and you expect your income to be considerably higher when the Roth assets are distributed, a Roth conversion may still make sense.

If you answered "Yes" to the above question, please continue with question #1 below:

1. Is your IRA made up mostly of after-tax assets? After-tax contributions are not taxed when converted to a Roth IRA. However, if your IRA contains taxable and non-taxable assets, the amount you convert is deemed to consist of a "pro-rata" portion of the taxable and non-taxable dollars in the IRA. You cannot escape this result by using separate IRAs, nor can you convert just your non-taxable assets. You must aggregate all your IRAs when calculating the taxes due on the conversion. You use IRS Form 8606 to determine the pro-rata taxable portion.  Yes  No
2. Will you, or your heirs, be in a higher tax bracket when the money is withdrawn? If you believe your income will be higher or tax rates will be increased, having assets in a Roth IRA is more advantageous than in a pre-tax retirement account.  Yes  No
3. Would you like to reduce your taxable estate? Paying income tax prior to the imposition of estate taxation may offer greater wealth to be transferred to your heirs, because no income tax deduction is permitted for state estate/death taxes levied on IRAs. Your taxable estate may be reduced by the amount of income tax you pay on the conversion.  Yes  No
4. For the year you are converting do you have favorable tax attributes such as a charitable deduction carryforward, investment tax credits, net operating losses etc.? These may reduce the effective tax rate for your conversion.  Yes  No

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| 5. Have your retirement savings suffered losses due to market conditions? It may make sense to convert depressed investments that are reasonably expected to increase in value or experience rapid growth.   | <input type="checkbox"/> Yes<br><input type="checkbox"/> No |
| 6. Is most of your retirement savings in accounts that will be taxed? A Roth conversion offers tax-management flexibility during retirement. However, if you have significant liquid net worth outside of your retirement accounts you may already have the necessary flexibility.   | <input type="checkbox"/> Yes<br><input type="checkbox"/> No |
| 7. Do you have 10 or more years until you (or your heirs) need the money? The power of the Roth is its ability to grow the funds tax-free. The longer the funds remain untouched, the more advantageous the conversion is.   | <input type="checkbox"/> Yes<br><input type="checkbox"/> No |
| 8. Would you like to minimize/eliminate annual RMDs? A Roth IRA does not have RMDs for account owners and their spouses. Therefore your funds within the Roth IRA are allowed to grow tax-free. Your beneficiaries gain tax-free access to this portion of their inheritance, though RMDs will apply to them. Consequently, the Roth IRA is an efficient tool for transferring wealth. | <input type="checkbox"/> Yes<br><input type="checkbox"/> No |
| 9. Will you need to withdraw money before age 59½? While it is generally not advised to take a distribution from any retirement account prior to retirement, a Roth IRA does have some distribution flexibility. Five years, or later, after a Roth conversion, a taxpayer can withdraw the converted amount, penalty- and tax-free.   | <input type="checkbox"/> Yes<br><input type="checkbox"/> No |

**Add up your answers:**

- If you have seven or more “yes” answers, you may be a good candidate for Roth IRA conversion. Talk to your tax advisor and contact me to discuss this strategy further.
- If you have four to seven “yes” answers, a Roth conversion might be the right opportunity. Let’s further evaluate your options.
- If you have fewer than four “yes” answers, I am happy to discuss this strategy with you, but it might not be right for you.

Yes \_\_\_\_\_ No \_\_\_\_\_