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Common Cents

Economic and Market Perspective

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IRA to Roth Conversion: To Convert or Not Convert, that is the Question? This is still being pushed by many advisors and insurance companies. Things to ponder prior to pursuing.

Much has been written about 2010 as the year to convert your IRA or company retirement plan assets to a Roth IRA. Yes it is true that everyone regardless of income or tax filing status will be eligible to convert to a Roth IRA in 2010, but anyone considering a conversion should do so after considering the following:

- There is no income tax on growth or earnings while in either IRA
- Balances in accounts at death under both will be included in any taxable estate
- There are differences in future contribution deductions between the two
- There are differences in taxation on withdrawals, but same 10% penalty if distributions happen before age 59 1/2
- There are differences in required minimum distributions (RMDs)

When should a person consider converting a tax deferred IRA into a Roth IRA?

- If money invested may not be needed during retirement as a Roth has no RMD at age 70½ and the Roth assets could be passed to spouse or beneficiary income tax free
- If your income tax rate will go up significantly in retirement from the rate you are paying right now
- Your IRA account balance declined significantly recently. Converting a low IRA balance may reduce your future tax burden while allowing recovery inside a tax-free Roth IRA
- If you have the cash to pay higher taxes now on the income incurred at conversion or if want to take advantage of the one time 2010 deferral allowing 50% of income incurred to be recognized in 2011 and 50% in 2012
- Persons uncertain about a conversion because of stock market uncertainty may elect to do a conversion currently and reverse the decision prior to filing their income tax return for the year of conversion

When should a person <u>not</u> consider converting a tax deferred IRA into a Roth IRA?

- A significant reason to not convert is that income taxes otherwise due at death of a tax deferred IRA owner or spouse may be deferred pro rata over the life expectancy of the beneficiary
- If conversion triggers alternative minimum tax (AMT)
- If invested money that you are thinking of converting will be used within next 10 years. If no time is allowed for converted assets to grow, the benefit is eliminated
- If you don't have the money outside of your IRA to pay the higher taxes owed under converting to a Roth

Please consider the above prior to making your conversion election or contact your CPA, Elder Law Attorney, or Financial Advisor to review your specific situation.

Colorado Financial Management Inc. is a fee only registered investment advisory firm providing tactical and strategic investment management for institutional and individual clients.

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