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Should You Convert to a Roth IRA?

Previously, if your adjusted gross income was $100,000 or more, you did not qualify to convert your tax-deferred savings to a Roth IRA. But this income restriction has been eliminated, so everyone is now eligible to convert to a Roth IRA.

You can roll over amounts from your traditional IRA and from eligible retirement plans, which include qualified pension, profit sharing or stock bonus plans such as 401(k)s; annuity plans, tax-sheltered annuity plans; and deferred compensation plans of a state or local government. You do not have to roll these into a traditional IRA first.

Of course, you will have to pay income taxes on the amount you convert; it will be included in that year's income. But when you consider the benefits it may be worth it.

BENEFITS OF A ROTH IRA

- With a Roth IRA there are no required minimum distributions during your lifetime. A traditional IRA requires you to start taking your money out at age 70 ½, whether you need the money or not. .
- Unlike a traditional IRA, you can continue to make contributions to a Roth IRA after you have reached age 70 ½. (See restrictions below.)
- As a general rule, after five years or age 59 ½, whichever is later, all distributions to you and your beneficiaries will be income tax-free. So your money doesn't grow tax-deferred...it grows tax-free.
- Withdrawals before age 59 ½ are considered contributions first, then earnings. So there is no income tax or penalty until all contributions have been withdrawn from the account.
- Money can be withdrawn at any time without penalty for college expenses, and up to $10,000 can be withdrawn tax-free at any time to buy or rebuild a home.
- You can stretch out a Roth IRA just like a traditional IRA. After you die, distributions will be paid over the life expectancy of your beneficiary. Your spouse can do a rollover and name a new, younger beneficiary with a longer life expectancy and get the maximum stretch out. You can also use a Standalone Retirement Trust (SRT) with a Roth IRA to obtain long-term creditor protection and benefit for your family.

CONVERSION CONSIDERATIONS

This is an excellent opportunity, but make sure you evaluate your situation and run the numbers before you make a decision. Consider how much you would pay in income taxes. Are you currently in a low tax bracket? Will your retirement tax bracket be the same or higher than it is now? Can you pay the tax without dipping into your tax-deferred savings? Did you make any non-deductible contributions that won't be taxed when you convert? Do you want to eliminate your required annual distribution? Should you convert some or all of your tax-deferred savings?

SEEK EXPERT ADVICE

This is an appropriate time to get advice from a qualified professional who has experience in this area. There may be a substantial amount of money involved, and while you certainly want to take advantage of this opportunity if it applies to you, you also want to make sure you act wisely.

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