

## **One Good Thing about a Tough Market— It's a Good Environment for Roth IRA Conversions**

Most of us will not start the New Year happy about our investments. But if you are looking for a bright spot, it's not a particularly bad time to consider converting a traditional IRA to a Roth IRA.

Right now, anyone with modified adjusted gross income of less than \$100,000 a year (individual or joint income) can convert a traditional IRA account to a Roth IRA. Higher-income Americans will get the same break in 2010 if Congress doesn't reverse its 2006 approval of provisions in the Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA).

Keep in mind that this also might be a good idea for people who were also unemployed or disabled during the past year and therefore had lower income. Talk to your tax professional about doing a full or partial Roth IRA conversion.

Remember that when you do a conversion, you must pay income tax on the amount you are converting, which can be all of the funds in the traditional IRA or just a portion of those assets. But, subject to certain restrictions, you won't pay tax when you finally need to withdraw your money. That's where the silver lining comes in for you or for your heirs if you pass that money on to them.

Take another look at your statements and how much your investments are down. Assuming that the markets perform historically and fight their way back, your tax-free amount available for withdrawal could accumulate significantly under that Roth status.

The conversion issue is a potentially attractive retirement and estate-planning idea for all Americans who want to make sure they maximize the assets they have for themselves and for their heirs on a tax-free basis. But anyone considering such a move—regardless of his or her income status—should first review their current retirement asset strategy with a tax or financial adviser such as a CERTIFIED FINANCIAL PLANNER™ professional.

Things to consider:

**The difference between a traditional IRA and a Roth IRA:** Traditional IRAs allow investors to save money tax-deferred with deductible contributions (within certain income limits if either spouse is eligible for a qualified plan at work) until they're ready to begin withdrawals anytime between age 59 ½ and 70 ½. Roth IRAs don't allow tax-deductible contributions, but they allow tax-free withdrawal of funds with no mandatory distribution age and allow these assets to pass to heirs tax-free as well. If you leave your savings in the Roth for at least five years and wait until you're 59 1/2 to take withdrawals, you'll never pay taxes on the gains. You can convert a traditional IRA to a Roth, but you must pay taxes on any pre-tax contributions, plus any gains.

**Time to retirement matters:** If you have more than five years until you plan to withdraw your retirement funds, conversion of traditional IRA assets to a Roth IRA might make sense. The longer the time span where earnings can grow tax deferred, the greater the benefit of being able to withdraw those earnings without paying tax on them.

**Your tax rate at retirement is important:** Many people, such as business owners, may be paying taxes now at a fairly low rate. So they might pay higher taxes at retirement. If that's the case, converting to a Roth might make a lot of sense. Additionally, with Social Security benefits being taxable at certain income levels, Roth IRAs can allow you to limit or eliminate such taxes.

**A Roth conversion can be expensive:** You'll have to pay taxes on contributions that you previously deducted, as well as taxes on the accumulated earnings. Also, you need to be aware that conversion could push you into a higher tax bracket, especially if you've accumulated sizeable earnings over the years. This is why a conversion needs to be planned with a tax expert. Why? It may trigger the Alternative Minimum Tax (AMT) due to those high earnings.

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