

To Convert or NOT To Convert in 5 Easy Steps

What is a Roth IRA conversion? A Roth IRA conversion is the process of moving IRA or employer plan assets to a Roth IRA.

- 1. When will you need the money?** If you have an immediate need for the funds or need them to continue your current standard of living, then a Roth IRA conversion is probably not for you. However, if you have no immediate need for the funds, a Roth IRA conversion is potentially a great way for the funds to grow tax-free over your lifetime.
- 2. Where will the money come from to pay the tax?** In nearly all cases, the money to pay the tax on a Roth IRA conversion should come from outside (non-retirement account) funds in order for the conversion to make sense. When a Roth IRA conversion is made, it generally triggers a taxable event, so your ability to pay that tax with outside money will go a long way in determining whether a Roth IRA conversion is right for you.
- 3. What do you think future tax rates will be?** If you believe your income tax rate will be the same or higher in retirement, then converting funds to a Roth IRA NOW makes more sense, since you will be paying the tax at a lower rate. On the other hand, if you think your income tax rate will be much lower in retirement, you may want to forgo a Roth IRA conversion and take advantage of lower tax rates in a later year.
- 4. Other reasons to consider a Roth IRA conversion.** You may have favorable tax attributes in the year of the conversion such as large charitable deductions, net operating losses or tax credits; you will not have to take required minimum distributions starting at age 73; you will have the ability to make contributions even after age 73 if there is eligible earned income; you can provide an income-tax-free inheritance to your heirs.
- 5. Other reasons to NOT consider a Roth IRA conversion.** You have an aversion to paying the income tax up front; you do NOT trust that the government will keep their tax-free deal; you plan to name a charity as your Roth IRA beneficiary and it will NOT have to pay income taxes on the money it receives.

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