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Forget the Taxes! 6 reasons to consider a ROTH Conversion

September 2010

For about the last 24 months my desk has been flooded with sales pitches under the guise of ROTH IRA conversions. I have also seen countless articles about the pros and cons of ROTH IRA accounts. Ignoring the sales pitches, most articles and so called experts focus on the tax benefits. The tax question is only one piece of the ROTH IRA decision making process. In fact, the tax question is the easiest one to answer: "Do I expect to be in a higher tax bracket when taking distributions than I am now when making contributions/conversions?" If the answer is yes, make the conversion. If the answer is no, consider the following before making a final decision.

#1 Avoiding Required Minimum Distributions. Unlike traditional IRAs, during the owner's lifetime ROTH IRAs are not subject to required minimum distributions (RMD). This has two significant advantages: The first is complete control over your ROTH IRA account. Many individuals over age 70.5 would rather not take RMDs, but the IRS requires it. In addition to control, not taking the RMD allows your ROTH to grow tax free longer than your traditional IRA would be allowed to grow tax deferred. It is important to remember that non-spouse ROTH IRA beneficiaries ARE required to take RMDs.

#2 Retirement Plan Contribution. In almost every situation the taxes for the ROTH conversion should be paid with non-IRA funds. In addition to the tax benefits, using non-IRA money to cover the taxes increases the net value of your IRA accounts. For example, if you have a \$100,000 IRA and you are in a 25% tax bracket, the net value of your IRA is \$75,000. If you convert your \$100,000 IRA into a ROTH IRA, your tax bill is still \$25,000 but the ending net value of your retirement accounts is \$100,000.

#3 Additional Creditor Protection. An additional benefit of using non-IRA money to cover the taxes is the ability to shelter additional funds from the claims of creditors and/or most legal settlements. In other words, that \$25,000 you used to pay taxes in the previous example can no longer be the target of a lawsuit caused by someone tripping on your stairs.

#4 Lowers the Value of your Taxable Estate. This one is a bit of smoke & mirrors as the taxes due on IRA accounts can be deducted from your estate tax bill. However, anything you can do to simplify your estate will be greatly appreciated by your heirs and will likely result in lower taxes and legal fees.

#5 Facilitates Long Term Care/Medicaid Planning for couples. Medicaid planning is an extremely technical topic that is beyond the scope of this article. To put it simply, if you or your spouse needs long term care, you will be very thankful for every dollar of ROTH IRA you have vs. traditional IRA.

#6 Future Lump Sum Distributions. Most often, retirement accounts are depleted slowly in the form of an income stream retirement. If however you are planning a large expenditure, a ROTH IRA will allow you to withdraw a large sum of money without affecting your tax bracket. In other words, a traditional

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IRA distribution of \$100,000 to purchase a new RV would likely push you up several tax brackets. A ROTH IRA distribution of the same amount would have no effect on your income taxes. Like every financial decision, a ROTH conversion should only be done if it will help you achieve your long term financial goals. Saving a few dollars in taxes is not a life goal. Maintaining dignity and independence in retirement is a life goal.