

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 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 and tax credits; you will not have to take required minimum distributions starting at age 70 ½; you will have the ability to make contributions even after age 70 ½ 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.

A M E R I C A ' S I R A E X P E R T S