

Roth IRA: A sharp tool?

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Many have pondered, "To Roth, or not to Roth. That is the question." As we've been conducting conversion analyses for numerous clients, one thing is clear. There is no one answer that blankets everyone. The Roth IRA is not a hammer to which everyone it encounters becomes a nail. Instead, it is yet another tool in a shed filled with financial gadgetry.

Now that tax filing season is in full-stride, and with little-to-no estate planning certainty on the horizon, our focus has shifted to Roth conversions. Before discussing conversion strategies, this is a good time to remind everyone who should consider converting their IRAs to Roth IRAs.

For individuals questioning whether to Roth or not to Roth, here are some characteristics that should be met before moving forward and crunching numbers.

The individual or family should:

- Be financially independent. If there will be a need to draw from the IRA to meet living needs, then a conversion may not be beneficial. Keep in mind that a partial conversion could still be appropriate once the degree of financial independence has been determined. The question an individual needs to answer is how much can be set aside and will not be needed for financial independence.
- Be in a similar or higher future tax bracket. This is more a discussion about what future tax brackets will apply to the individual than about where future tax rates are going. It's a pretty safe bet that tax rates are not

going down anytime soon. For people in the top brackets today who expect to remain there indefinitely, this could be an opportunity to lock in today's lower tax rates with the expectation that tax rates are rising. For everyone else, it's important to have a handle on what the future taxable streams of income are going to look like, especially required minimum distributions. This will help determine whether a lump sum conversion will thrust them into a higher bracket than they would otherwise be subject to.

- Intend to leave a legacy. For the majority of the analyses that we've been conducting for clients, the lifetime benefits have been somewhat marginal. However, the multigenerational benefits have proven to be substantially greater, so long as the Roth IRA can continue to grow unencumbered. That being said, if the individual desires to leave an IRA to charity, there isn't any benefit to pre-paying taxes now on behalf of the charity.

Now that the basics have been revisited, and assuming the individual has agreed to a Roth conversion, the discussion turns towards execution. And this is where the planning really comes into play. As stated previously, doing a lump sum conversion and paying taxes in 2010 can be beneficial if one expects future tax rates to increase. This could be an opportunity to lock in the maximum 35% tax rate, which is set to sunset at the end of the year. Thus, anyone who qualifies for a Roth conversion, is in the top tax bracket, AND expects to remain in the top tax bracket should seriously consider accelerating their conversion income. This must be a joint discussion between the individual, accountant

and wealth manager to ensure that all parties are in agreement with the assumptions and strategies.

What about individuals who expect to remain in a moderate tax bracket, or for whom their taxable futures are less certain, or who may be considering relocation to a more income tax-friendly state? Again, based on a joint discussion with the accountant and wealth manager, planning should be done to avoid costly mistakes, such as having their Roth conversions taxed at a much higher rate than would otherwise be the case. Our experience to date suggests that many individuals are falling into this category. In this case, doing an "all-in" conversion in 2010 may not be the optimal strategy. For these people, once they have identified how much of their IRAs to convert to Roth IRAs, the implementation can have a significant impact on the ultimate benefit. For people in this category, we suggest spreading the

Roth conversion over several years. Remember that the \$100K modified adjusted gross income limitation has been permanently repealed, and this limitation is not expected to be reinstated (for now at least!). Thus, there is no urgency for these people to run out and have their conversions done this year. This year could simply represent one of several of a longer-term implementation strategy.

We've heard it said that the Roth conversion could be one of the greatest financial planning tools never to leave the shed. And by no means is RegentAtlantic Capital suggesting that everyone execute a Roth conversion. Rather, we suggest that everyone consider whether it is the right tool necessary to complete the job.

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Determining whether to convert any of your pre-tax retirement assets into after-tax Roth IRA assets is a complicated decision based on your individual circumstances and your beliefs or assumptions about many aspects of the future. Because RegentAtlantic does not provide tax, legal, actuarial, or accounting advice, you should consider consulting one or more professionals in those areas before you decide whether or not to do such a conversion in 2010 or any subsequent year.