Assured Concepts Group, Ltd
A WEALTH & TAX ADVISORY FIRM

To Convert, or Not to Convert

Discussing IRA to ROTH Conversions

To convert, or NOT to convert – that is the question.

Putting the Shakespeare jokes aside - we are talking about the commonly debated Traditional IRA to ROTH IRA conversion.

So first, let's break down the general details.

A Roth IRA conversion is more than just a financial maneuver; it's a strategic decision that could impact your retirement nest egg significantly. It involves transferring assets from a traditional IRA or employer plan into a Roth IRA, which allows your investments to grow tax-free over the long haul. Not just tax-free during accumulation like the Traditional IRA, but tax-free on the distributions as well.

Deciding on a conversion isn't necessarily black and white. To make a sound determination evaluating both the benefits and costs, you should seek professional guidance with pros well versed in the subject. You can find a financial professional specifically trained on these matters by finding a member at IRAHELP.com. To make a sound analysis, simple and complex factors need to be merged together. These would include timing issues, your personal financial needs, the tax situation both today and as assumed in the future, your specific goals both during your lifetime and from a legacy perspective, and much more.

As mentioned, just like with any financial decision, it's wise to seek guidance from a knowledgeable advisor before taking the plunge, but today we will review some of the key things to consider.

While there is more to think through, here are five critical factors to consider...

First question is, when will you need the money?

Timing here is key. If you have an immediate need for the funds or need them to continue your current standard of living, then a Roth IRA conversion may not be right 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. This is where a strong financial plan comes into play to help you understand your future cash flow needs and costs.

The Second question - where will the money come from to pay the tax?

In the vast majority of 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 will trigger a taxable event, so your ability to pay that tax with outside money will go a long way in determining whether 100% of the converted dollars will continue with future tax advantaged treatment.

Next ask yourself. What do you think future tax rates will be?

If you believe your income tax rate will be the same or higher in the future, 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. You may be asking yourself, how would I know or determine how to estimate my tax rate. This is where an experienced tax planning professional can be really helpful.

A 4th consideration is to review the other reasons to consider a Roth conversions.

Here are just a few examples that can influence that decision...

- You may have favorable tax attributes in the year of the conversion such as large charitable deductions, business losses or some form of tax credits.
- You will not have to take required minimum distributions until later and value the idea of reducing those future required distributions.
- You will have the ability to make contributions even after age 73 if there is eligible earned income.
- You want to provide an income tax-free inheritance to your heirs.
- You understand a surviving spouse will lose Married Filing Joint status and want to help reduce the surviving spouse manage the increased tax burden caused by single filing tax status.

As an alternative, our 5th consideration are reasons to NOT consider a Roth IRA conversion.

Here are a few examples:

- 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 payout your IRA to charities either after age 70 ½ or at death, and there will NOT be any income taxes on the money provided to those charities. Please note there are annual limitations while alive, but no limitations at your passing.

To review, there is not a shortage of factors to consider before making any decisions on a conversion – and to be honest it demands careful consideration and personalized professional advice.

If you're curious about the nuances of Roth IRA conversions or have specific questions tailored to your financial situation, our team at Assured Concepts Group is here to assist you. Being equally well trained at both financial advisory issues and tax advisory matter, this is an area of specialty for us.

Reach out to us, and let's navigate the path to a secure retirement together.

More questions? Contact us at:

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