

Convert to a Roth IRA or Not?
This is the Question. Only You Can Provide the Answer.
By Arthur Rottenstein, Registered Principal

Even if you qualify to convert your traditional individual retirement account to a Roth account, it doesn't mean you should. The right answer is probably tied up in concerns about personal income tax rates, your plan for your estate, the current state of your finances and, in a sense, your best guess about your future tax circumstances.

Here are the principal differences between the two IRA plans.

Traditional IRA

Created in 1974, the traditional IRA allows qualified income earners to invest a pretax amount each year into an account that grows free of taxes until the funds are paid out in distributions that are taxed as regular income. After you turn 70½, you *must* begin taking required minimum distributions (RMDs).

Roth IRA

The Roth IRA, in effect since 1998, turned the original idea on its head. Retirement savings contributions come from after-tax money, but your investments grow tax-free and distributions taken after attaining age 59½ are tax-free if you've owned the account for at least five years. You are not required to take RMDs from Roth accounts, so switching traditional IRAs into Roth Ira's appeals to many investors.

Conversion Factors

Before you decide to convert, however, here are some important considerations:

- Do you have the money to pay the taxes due on conversion? In the year you convert, you'll have to pay the taxes due on the pretax contributions and earnings, preferably without tapping into your IRA money. If you are under age 59½, you may also have to pay a 10% penalty.
- Your traditional IRA withdrawal counts as regular income and may throw you into a higher tax bracket. One solution may be to convert small amounts over time.
- Is time on your side? Do you have enough years between the time you convert and when you retire to allow your new Roth to regenerate the income lost to taxes?
- Will you need to take distributions in retirement and will your post-retirement tax bracket drop (say from 25% to 15%)? If so, converting to a Roth may not make sense because you'll be paying a lesser rate on your post-retirement traditional IRA distributions than you paid to convert.
- Do you plan to leave all your IRA money to heirs? If so, converting probably makes sense because the Roth IRA doesn't require you or your

surviving spouse to deplete the funds during your lifetimes by taking RMDs.

As is the case with so many financial decisions, converting to a Roth IRA makes eminent sense for some and little sense for others. Please consult your Estate Planning Attorney, CPA, and/or your Financial Advisor to see which way is best for your situation.

This material was prepared by Raymond James for use by Arthur Rottenstein, Registered Principal, Raymond James Financial Services, Inc. Member FINRA/SIPC.

Arthur Rottenstein is a Registered Securities Principal with Raymond James Financial Services in Boca Raton. He has been helping people with financial planning since 1982. Please feel free to call Arthur at 561.391.6961 or email arthur.rottenstein@raymondjames.com. Please also feel free to visit his website at coralspringsfinancialplanner.com.