

# Consumer Information

## Roth IRA: Convert or not to convert?

NEW YORK (9/16/09)--Are you looking for an opportunity to shelter retirement savings from future tax increases? On Jan. 1, the usual income limitation of \$100,000 will be lifted, and tax rules will allow you to spread the conversion taxes you'll owe over two years instead of paying them all in 2011 (*The New York Times* Sept. 3).

There are good reasons to convert a regular individual retirement account (IRA) to a Roth in January, but it might not be the best strategy for you. Consider the pros and cons.

If you're young, converting to a Roth is a smart money move. It's true that you'll pay ordinary income taxes on the money you convert at your current tax rate, but consider this:

- A Roth IRA allows tax-free growth and tax-free income distributions at age 59 1/2 or older and as long as you have held your Roth account for five years or longer. The younger you are, the longer you have to grow your retirement savings tax free.
- The market's been down, and is slowly climbing. Most likely your account value is at a low. By converting now, you may pay lower taxes than if you wait.
- With looming federal budget deficits as well as Medicare and Social Security obligations, there's a good chance tax rates will increase in the coming years. You'll be better off paying those taxes now rather than later.
- By converting to a Roth, you avoid the traditional IRA requirement to take yearly minimum distributions starting at age 70 1/2. This can leave more for your heirs if you don't use the money yourself.

If you are older, a Roth still may make sense. Here's why:

- A traditional IRA requires you to take withdrawals starting at age 70 1/2, but a Roth IRA does not. The longer you can wait, the more time your money has to accumulate tax-free.
- Under the present tax laws, converting a traditional IRA to a Roth can lower the size of your taxable estate. Think: decades of tax-free growth.
- If you name your spouse as the beneficiary of your Roth, and your spouse foregoes withdrawals after you die, those Roth IRA assets keep compounding untaxed for the rest of your spouse's lifetime. If your spouse could name a child as their beneficiary, the tax-free compounding goes on (*Kiplinger.com* March 19).

Reasons why converting may not be right for you:

- Young, old, or in between, there's reason to think twice about converting: You will pay taxes now. Do you have enough in savings to cover these taxes? If not, don't convert.
- It will not benefit you to pay for the taxes out of your current IRA. If you're under 59 1/2, you'll have to pay a penalty to take the money out of your IRA. In addition, the amount you take out to cover the taxes will lose the benefit of tax-free compounding.

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