

SMART INSIGHTS FROM PROFESSIONAL ADVISERS

Is a Roth Conversion Right for You?

Based on current tax laws, three different types of people stand to benefit by moving funds out of their traditional IRAs into a Roth. See if the timing and tax benefits make sense for your plan.

By C. GRANT CONNESS | Global Wealth Management | October 2018



If you're like many of my clients, the idea of converting some or all of your traditional IRA money to a Roth IRA pops into your head once or twice a year. Most likely this is as you're preparing to file your income taxes or when you're about to meet with your financial adviser to review your retirement plan.

Maybe you even discussed a Roth with your adviser or CPA in the past and decided the biggest drawback (paying taxes now on the money you move) outweighs the biggest benefit (you won't have to pay taxes on it later). So you opted to put off the conversion decision.

If you haven't had an analysis done lately, it's time to reconsider the pros and cons. Because for the next few years, moving to a Roth could be a little less painful. The reforms of the 2017 Tax Cuts and Jobs Act include lower individual rates that will expire in 2026 – giving savers a small window to convert funds now to help create more wealth without incurring a large tax liability.

If you think your tax rate will be even lower in the future (you can check out the new brackets at the IRS website), or if the timing doesn't work with your overall retirement plan, you still may decide to pass. A Roth conversion isn't for everyone.

However, if you fit the following criteria, you should take a look at what a Roth conversion could mean for you:

- **If you're in your early to mid-60s and you don't expect you'll need to pull income**

from your IRA during your lifetime. A Roth can help you avoid the dreaded required minimum distributions (RMDs), which start at age 70½, and preserve your savings for your heirs. Your heirs also will benefit from your forward thinking when it comes to their own taxes. With a traditional IRA, non-spousal beneficiaries are required to take minimum distributions and pay taxes at what could be the highest rates of their lives. Their Roth RMDs will be tax-free; you're paying the taxes now so your beneficiaries won't have to pay them later. This makes a Roth an appealing gifting strategy.

- **If you're younger and will need the income from your IRA, but you have the ability to pay any additional taxes from the conversion with funds outside of your retirement accounts.** Even if you're younger than 59½, you can convert money to a Roth without

paying the 10% early withdrawal penalty to the IRS. So, for example, those in their 50s can take advantage of the lower tax rates by converting now, and withdrawals taken as retirement income will be tax-free. If you anticipate healthy pension checks and Social Security payments and/or expect to lose some much-relied-upon tax deductions in retirement, a Roth can be an important tax strategy.

- **If you're in your 70s and already taking RMDs.** Those who were caught off guard by the impact of RMDs on their taxes in retirement may still benefit from a Roth conversion. Remember, depending on your account balance, your RMDs likely will grow larger each year — and you might be around for another 20 or 30 years. An analysis can tell you if it's worth doing a conversion once you're over age 70½.

Converting your retirement savings to a Roth account isn't difficult. But no matter what your age or circumstances, there are rules — and penalties if you don't follow those rules. Be sure to get advice from a trusted professional, such as your financial adviser, a CPA or both.

Start with an analysis that takes into consideration how your needs will change over your lifetime along with your short- and long-term goals. Don't delay. There's a good chance taxes will rise in the future, so a Roth conversion is especially appealing right now. Don't miss out on this significant opportunity.

Kim Franke-Folstad contributed to this article.

Although there is no up-front tax deduction for Roth IRA contributions, qualified distributions are income tax free.

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