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ROTH IRA CONVERSION CONSIDERATIONS

A Roth IRA is an individual retirement account to which you contribute after-tax dollars. A Traditional IRA can become a Roth IRA through a process known as a Roth conversion. To convert, or not to convert? There are many factors to consider.

ADVANTAGES OF ROTH IRAs

- Tax-free growth
- Qualified distributions are income tax-free to both owners and beneficiaries
- Required minimum distributions (RMDs) are not required during the life of the owner
- Income-tax free inheritance

DISADVANTAGES OF ROTH IRAs

- No tax deduction for contributions
- May provide little benefit if account values decline or taxes do not increase
- Funding Roth IRAs may be difficult due to contribution limits and the taxes associated with Roth conversions
- Roth 401(k) rules are not the same as Roth IRA rules
  - Separate five-year clocks for qualified distributions

FACTORS TO CONSIDER:

- Potentially higher federal tax rates in the future
- State income taxes
  - Moving to a state with a higher state income tax
- Medicare premiums
  - Roth income can help lower Medicare income-related monthly adjustment amount
- Valuation of investments at the time of conversion
  - Recharacterizations are no longer permitted
- Lessens RMD drag
- Wealth transfer
  - Heirs may be in a higher income tax rate
- How much to convert and time horizon
  - It is not all or nothing

ROTH CONVERSION CONVERSATION

- Excess deductions
- Business owners with net operating losses
- After-tax contributions to retirement plans
- Backdoor and mega backdoor Roth conversion
- In-plan Roth conversions (for plans that have made this option available)
- Wealth transfer opportunities — beneficiaries in higher tax brackets/lower income bracket retirees

CASE STUDY

Philip (age 62) has consulted his financial professional to create tax-diversified income options when he retires in three years at age 65. His tax rate at conversion is 24%, but anticipates tax rates to be higher in retirement due to his pensions from several previous employers. Phillip estimates his post retirement income tax bracket to be 28%. Philip is also concerned about the uncertainty with tax laws. He is concerned that tax rates will eventually increase. Philip's financial professional shows him how to increase his retirement savings while creating tax diversification with his retirement assets.

Talk to your tax professional regarding your particular situation and whether a Roth conversion may be right for you.

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The values listed here are for illustrative purposes only and are inclusive of gains and other assumptions that are not shown on the slide.

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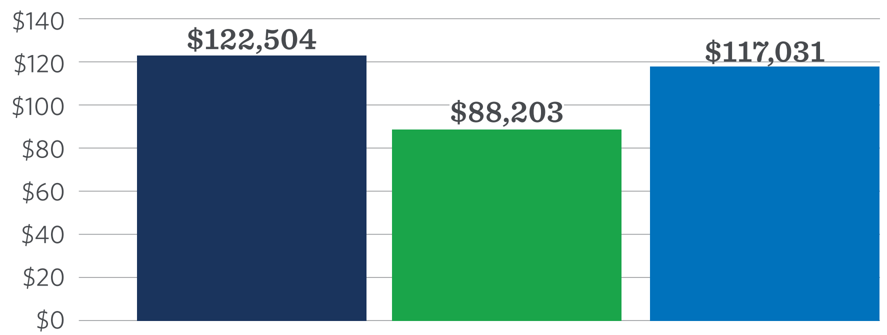
ROTH IRA CONVERSION CALCULATOR

A Roth IRA conversion of a $100,000 Traditional IRA could produce an increase of $5,473.43.

Your retirement total savings, after taxes, could increase **$5,473.43** by converting your existing Traditional IRA to a Roth IRA. That equals a **4.7% difference.** How much is this worth today? Based on these inputs, you would have to invest **$24,000.00,** which is the estimated tax due for this conversion, plus an additional **$4,556.80** to match the returns produced by the tax savings built into the Roth IRA.



After tax Roth IRA **$122,504.30**
After tax Traditional IRA **$88,203.10**
Traditional IRA + $24,000.00 tax payment **$117,030.87**

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