

2010 Roth Conversion Opportunity! Is it Right for You?

By Peter Murphy

In 2010, all taxpayers, regardless of income level, are now able to convert a traditional Individual Retirement Account (IRA) to a Roth IRA. The **Tax Increase Prevention and Reconciliation Act of 2005 (TIPRA)** signed in May 2006 by President Bush made this possible.

So what are the differences between a Traditional and Roth IRA? Contributions to a Traditional IRA are tax-deferred (on all but non-deductible contributions) and these funds grow tax deferred. You eventually pay ordinary income tax on amounts withdrawn. Roth IRA contributions are made with after-tax money, and earnings grow tax exempt. Withdrawals from Roth accounts are generally not taxed. Traditional IRAs are subject to required minimum distributions beginning in the year you turn 70½, whereas a Roth IRA is not subject to required minimum distributions. Contributions to a Traditional IRA are subject to a 10 percent federal penalty if withdrawn prior to 59½ years of age (with some exceptions to this rule), whereas Roth IRA contributions can be withdrawn tax and penalty free at any time. Additionally, you can contribute to a Roth IRA as long as you have earned income, regardless of age, which is not allowed for Traditional IRAs.

Should you convert your qualified assets to a Roth IRA? The answer depends on many factors and should not be made without a comprehensive review of your retirement goals, expected retirement income, future tax rate projections, and much more. For some, the answer may be yes, and others no.

Some factors to consider:

- Do you believe your income will increase or decrease in retirement?
- Will the Economic Growth and Tax Relief Reconciliation Act of 2001 sunset, increasing federal tax rates effective January 2011, or will Congress keep federal tax rates at the current level?
- Will future state tax rates rise or fall?
- How do you plan to use your IRA assets?
- Are you concerned with your modified adjusted gross income affecting taxes paid on Social Security benefits?
- Do you need to reduce your estate value to diminish or eliminate estate taxes?
- How does a Roth IRA affect your wealth transfer strategy relative to a Traditional IRA?
- Since Roth conversions are a taxable event (on all but non-deductible IRA contributions), how do you plan to pay taxes on the conversion?
- Will you pay the conversion tax in 2010, or delay payment until 2011 and 2012 as allowed by law?
- Is a partial conversion strategy in your best interest?
- With the stock market below historic highs, will you benefit by converting your Traditional IRA to a Roth IRA in early 2010?

- Traditional IRA's are subject to required minimum distributions, while Roth IRA's are not? Is this relevant to your retirement and estate planning goals?

I could go on, but you get the point – this isn't an easy decision and there are many factors to consider in making this important choice. The opportunity for all taxpayers to convert Traditional IRA's to Roth IRA's is another retirement and estate planning tool to consider when preparing for your retirement and legacy aspirations. Understanding your retirement needs and how a Roth conversion affects YOU is paramount to this decision making process.

Talk with your financial advisor, estate planning attorney and tax consultant before selecting an action plan for you and your family. Alternatively, you can contact me to review your retirement and estate planning needs and discuss whether a Roth IRA conversion is the right choice for you. At American Prosperity Group, we never charge for consultations.

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