

Eligibility Restrictions for Roth IRA Conversions Are Changing In 2010

By **Gregory S. Smith, CFP[®], ChFC**

The future of federal income tax rates is unpredictable, but the current deficit and rate of government spending makes higher taxes in the future seem likely. In this light, it may make sense to discuss a Roth IRA conversion with your Wise Investor Group Financial Planner. Recent legislative changes that will take effect January 1, 2010, will make it possible, for the first time, for investors at every income level to convert some or all of their Traditional IRA assets into a Roth IRA. Prior to this change, an Adjusted Gross Income restriction precluded many of our clients from taking advantage of the potential tax benefits of a Roth IRA. These potentially valuable benefits include the ability to pay taxes on contributions at your current rate, tax-free growth of your assets and no minimum distribution requirement. Additionally, for conversions made in 2010, the resultant taxable income can be spread out over 2011 and 2012, giving you more than two years to cover the associated taxes.

From a comprehensive planning standpoint, this change means it will soon be possible for ALL investors to fully diversify their retirement assets across three types of accounts: Taxable, Tax-Deferred, and Tax-Free. Flexibility and balance are two hallmarks of a solid financial plan and these tools can provide you with both. Depending on how tax rates move in the future, you will be able to determine from which account you wish to draw your money, maintaining more control over your tax liabilities in the process.

It is also important to keep in mind that the advantages of a Roth are largely dependent on the amount of time you plan to leave the assets in the account. In general, the rule is: the longer the better. Paying taxes on your assets now only makes sense if those assets have a chance to grow tax-free long enough to fully compensate for that expenditure and provide returns beyond it. This is why a comprehensive understanding of your current situation and long-term investment strategy is essential when making this decision.

If you have been ineligible for a Roth IRA conversion due to the income restriction, or if you already have a Roth IRA and are considering converting more dollars into it, call us today to determine if the 2010 opportunity makes sense for you.



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