

Is a Roth IRA conversion right for you?

With advances in healthcare and people living generally healthier lifestyles, there's a very good chance you can look forward to 20 years in retirement, if not longer. A Roth IRA can help you fund those golden years with some significant tax advantages.

How you can benefit from a Roth IRA.

Although Roth IRAs do not provide any immediate tax benefits, the money you contribute to a Roth IRA grows tax-free, and you won't have to pay income tax when you withdraw that money, as long as you are over age 59½ and the money has been invested for at least five years. What's more, as long as you or your spouse has earned income (i.e., income from a job, not dividends, interest or capital gains) and meets the eligibility requirements, there are no age restrictions for contributing to a Roth IRA, though there are income limits for new contributions.

If your present tax bracket is lower than what you anticipate it could be in retirement, you could convert your traditional IRA to a Roth and pay taxes on that money now. Then your Roth IRA can grow tax-free, and you'll pay no taxes when you withdraw your money in retirement. With decades of compound growth, dividends and interest working for you, topped off with no capital gains tax, a Roth IRA could prove to be a wise choice for an investor in many tax brackets.

In addition, the money you convert to a Roth IRA is not subject to the required minimum distribution rules that apply to traditional IRAs. This means you are not required to take mandatory distributions when you turn 70½. So if you choose, your money can continue to compound tax-free until you are ready to withdraw it or pass it along to your heirs.

Roth IRAs are not for everyone.

If you anticipate *not* being in a substantially lower tax bracket when you retire, a Roth conversion might not make sense for you. In fact, you could end up pushing yourself into a higher tax bracket in the year you convert, thereby eliminating its potential benefits. Moreover, if you don't have the money on hand to pay the taxes, a Roth conversion is pointless. (Don't even think about taking money from a traditional IRA to pay the taxes: you'll be hit with an additional 10% early distribution penalty that would negate any possible benefit of the conversion itself.)

Rules regarding Roth IRAs change frequently, and every individual's situation is unique. We recommend you check with your tax professional or Financial Advisor to make sure you understand all your options.

This article should not be considered tax advice and one should consult a tax advisor.