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## **Roth IRA to be more accessible, but may not be best for all**

Written by Sandra Block

Ever since its inception 12 years ago, the Roth individual retirement account has been popular with investors who love its simplicity.

Once you turn 59½, withdrawals are tax-free. You don't have to muck around with required mandatory distributions when you turn 70½. If you don't need the money, you can leave your Roth to your kids, who will remember you fondly when they take their own tax-free withdrawals.

But not everyone who wants a Roth can have one. You can't contribute to a Roth this year if your modified adjusted gross income exceeds \$176,000 if you're married or \$120,000 if you're single.

While the law allows investors to convert a traditional IRA to a Roth, the income cut-off for that is even lower: \$100,000, for single and married couples who file jointly.

Soon, though, these barriers to a Roth IRA will crumble.

Starting in 2010, the income limit on Roth conversions will disappear, providing a backdoor way for anyone who has an IRA to own a Roth.

Brokers and financial planners are eagerly informing their clients of this opportunity to shelter their retirement savings from taxes.

Many are advising their clients to put money in a non-deductible IRA now so they can convert it next year.

But converting isn't for everyone. Reasons you shouldn't convert your IRA to a Roth:

**•You think your tax rate will decline when you retire.**

Tax rates are expected to rise in the next few years, especially for the wealthy. But that doesn't mean your own tax rate will go up.

If you're in a high tax bracket now and expect to drop into a lower one when you retire, you're better off leaving your money in a traditional IRA and paying taxes when you take withdrawals, says Andrew Friedman, a tax attorney and consultant to Eaton Vance, a financial services firm.

Otherwise, he says, "You're paying tax on the conversion at a high rate and pulling money out at what would normally be taxed at a lower rate."

However, individuals who expect their income to remain the same in retirement are better off converting, Friedman says.

Because tax rates are expected to rise, you could end up paying a higher rate on your IRA withdrawals even if your income doesn't change, he says.

**•You don't have money outside your IRA to pay the tax bill.**

Digging into a tax-deferred savings plan to pay taxes "defeats the purpose of having a retirement account," says Pamela Villarreal, senior policy analyst for the National Center for Policy Analysis, a conservative think tank. You'll have to pay taxes on the money you withdraw, plus a 10% penalty if you're younger than 59½.

There are a couple of ways to make your tax bill more manageable.

One is to take advantage of a provision in the law that allows taxpayers to spread out the payments. Taxpayers who convert in 2010 won't have to pay any taxes that year, and will be allowed to pay half the tax bill in 2011 and the balance in 2012.

Another strategy is to convert just a part of your IRA, which will reduce the amount of taxes you'll owe on the transaction, Friedman says. You can stretch out the process, converting a portion of your IRA every year until all your money is in a Roth.

However, investors who have both deductible and non-deductible contributions in their IRAs can't lower their tax bills by

converting only the non-deductible portion, says Greg Womack, a financial planner in Edmond, Okla.

Your conversion will be taxed based on the percentage of taxable and non-taxable dollars in your IRA, Womack says.

For example, suppose you have \$500,000 in your IRA, consisting of \$350,000 in deductible contributions, \$100,000 in taxable earnings and \$50,000 in non-deductible contributions. If you convert \$50,000 of your IRA to a Roth, \$45,000 will be taxable because 90% of your IRA consists of deductible contributions and taxable earnings.

If you don't have an IRA to convert, it's not too late to invest in one. While deductible IRAs are subject to income limits, anyone can invest in a non-deductible IRA.

Ordinarily, financial planners aren't big fans of non-deductible IRAs, because you don't get a tax break on contributions, and withdrawals are taxed at your ordinary income rate.

But after Jan. 1, you can convert your non-deductible IRA to a Roth. Because your contributions are after-tax, you'll only owe taxes on any investment gains you earn.

For 2009, the maximum you can invest in an IRA is \$5,000, or \$6,000 if you're 50 or older.