



Knowledge is Power

“Hi Brian. I have heard a lot about the benefits of the tax-free Roth IRA. However, the Roth IRA was not around when I was saving for retirement, and so all of my savings are in traditional IRAs where taxes are owed by me and my beneficiaries. I am 81 now. Am I too old to convert this to a Roth IRA, and if not, should I? Thank you.” Roger

Hello Roger. Thank you for sending in your question. It is a very popular one that many people ask themselves all of the time. Most people believe that tax rates will be higher in the future, and with that belief, they wonder how to protect their retirement savings the best way to pay the minimal amount of tax owed on those dollars. Converting money to a tax free Roth IRA is one way of making strategic tax moves to get more tax efficient.

Fortunately, there is no age limit on converting a traditional IRA to a Roth IRA. Anyone can do this, at any time for any amount as often as they choose. So, you can do this. The most important question is ‘should you’. There are many factors that go into this decision. Let’s look into a few.

When you convert your traditional IRA to a Roth IRA, your pre-tax traditional IRA funds will be included in your income in the year of the conversion. This will increase your income for the year of the conversion. That may, in turn, impact deductions, credits, exemptions, phase-outs, the taxation of your Social Security benefits and Medicare Part B and Part D premiums; in other words, anything on your tax return impacted by an increase in your income.

That is a tax hit for sure, but keep it in perspective. Remember, this is tax that has to be paid at some point, by you or your heirs. Also, the extra income is only for the year of the conversion. The trade-off is the big tax benefit down the road. If you follow the rules for qualified Roth IRA distributions, all your Roth IRA funds, including the earnings, will be tax-free when distributed to you, and your heirs. So, the key determination is when and how to pay the tax owed on traditional retirement dollars the most effective way. If it is better for you to do it now (before potential higher tax rates in the future), then it very well may make sense to start doing Roth conversions for a portion of your money each year.

Before doing a Roth conversion, no matter how old you are you need to ask yourself at least a few questions. First, when will you need the money? Do you need your IRA money immediately for living expenses? If so converting may not be for you. Second, what is your tax rate? If you are retired and your income is lower, that may favor conversion. Next, is how will you pay the tax owed on the conversion as it is always best to pay the conversion tax from non-IRA funds. And finally, what other

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taxes or expenses (if any) will a Roth conversion create.

Remember, once a Roth conversion is completed, that money will not be taxed again, including all of the interest it makes inside the Roth IRA. And in addition, you are not required to take required minimum distributions (RMDs) from your Roth IRA during your lifetime. So, that could end up saving you additional taxes (like Social Security taxes) or other expenses going forward. There are estate planning advantages as well.

So, the bottom line is anyone can do a Roth conversion at any time. You just have to determine if it makes sense. We highly recommend you work with a retirement planning specialist and tax advisor to help you go over all of the factors that need to be addressed to determine if this is the proper move to make at any given time. Join me this weekend on The Retirement Money Matters Radio Show as we will go over this question in much more detail as well as answer many more retirement planning questions sent in from our readers and listeners. The show airs Saturday morning at 6 on WIBC (93.1 FM), Sunday morning at 8 on WWKI (100.5 FM), and online at www.theretirementmoneymattersshow.com. You can also obtain this information by reaching out to us at Hayes Advisory Group at 452-PLAN (7526), 800-939-1603 or brian@hayesadvisorygroup.com.