

MAKING CENTS

LITTLE CERTAIN IN ROTH IRA CONVERSIONS



-John P. Napolitano, CFP®, CPA, PFS, MST, RLP®

Unless you believe that your IRA accounts will be worth less sometime before the end of the year, consider seeing drops in market value as opportunities to make a contribution or conversion to a Roth IRA. Remember, this is the year where there are no income limits for conversions to Roth IRAs.

And while Roth IRAs may be the best thing since sliced bread for some, it could be an invitation to further reduce the value of your retirement holdings by subjecting the converted amount to ordinary income taxes this year. There is no guaranteed right or wrong answer to the issue of whether you should convert, because the factors that may determine success in a conversion will not play out for years. These issues include unknown variables such as tax rates on the date of the conversion compared to what they may be when you actually withdraw the money.

The only certainty that you may have in the Roth decision is the value of your account when you convert. So with your one guaranteed fact, if you haven't made the Roth conversion yet, take dips in market valuations of your IRA account to lower the tax bill upon conversion. Of course, you may pick what you think is a low point only

to find it lower sometime before the year is out. Unless you wait until Dec. 31 to do your conversion, this one will hang over your head. But I do not recommend waiting until the last day of the year to make your Roth conversion because these types of transfers frequently get hung up in the minutiae of custodians and can easily fail for one missed signature or misspelling.

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There is no permanent solution, so for the uncertain or skeptical, perhaps you should consider making your conversions in chunks. No part of the conversion law requires that you do it all at once. Spreading your conversion out over a few months may reduce the risk that market volatility and fluctuations can do to the taxable conversion amount.

Mechanically, your first step would be to choose a custodian and physically open a Roth IRA account. Once the account is opened, you can start making transfers when you are ready. Check the rules for each custodian though, many will charge you for an empty account sitting around with no activity or even worse close the account. I'd suggest an account like a brokerage account where you can hold the gamut of permissible investment choices for an IRA – from aggressive to very conservative.

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