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BROTHERS

**To convert or not to convert?
[Richmond Refreshers] Closed Captions
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Hi, I'm Dan Vredeveld, CFP and Senior Financial Advisor with Richmond Brothers.

Are you worried about remembering to take your required minimum distributions (RMDs) each year once you hit age 73? If you're a traditional IRA account owner, this may be just one of the reasons you're considering a Roth conversion.

In case you're not familiar, a Roth IRA conversion is the process of moving IRA or employer plan assets to a Roth IRA.

While converting can come with many benefits, such as no RMDs and a lower tax bill in retirement, it's also not for everyone. Today I'm going to cover 5 important things you should review to determine whether a Roth conversion is right for you.

First, when will you need the money?

If you have an immediate need for the funds or need them to continue your current standard of living, then a Roth IRA conversion is probably not for you. However, if you have no immediate need for the funds, a Roth IRA conversion is potentially a great way for the funds to grow tax-free over your lifetime.

Second, where will the money come from to pay the tax?

In nearly all cases, the money to pay the tax on a Roth IRA conversion should come from outside (non-retirement account) funds in order for the conversion to make sense. When a Roth IRA conversion is made, it generally triggers a taxable event, so your ability to pay that tax with outside money will go a long way in determining whether a Roth IRA conversion is right for you.

Third, what do you think future tax rates will be?

If you believe your income tax rate will be the same or higher in retirement, then converting funds to a Roth IRA NOW makes more sense, since you will be paying the tax at a lower rate. On the other hand, if you think your income tax rate will be much lower in retirement, you may want to forgo a Roth IRA conversion and take advantage of lower tax rates in a later year.

Fourth, what are some reasons you may **want** to consider a Roth IRA conversion?

There are many reasons that a conversion may make sense for you. For instance, you may have favorable tax attributes in the year of the conversion such as large charitable deductions, net operating losses, or tax credits. Or maybe you love the idea that you will not have to take the required minimum distributions starting at age 73. Or perhaps you want to have the ability to make contributions even after age 73 if you have eligible earned income. Finally, you really want to be able to provide an income-tax-free inheritance to your heirs. These are all examples of why a conversion may be a good option for you.

Lastly, you should consider some of the reasons you wouldn't want to complete a Roth IRA conversion.

There are also a multitude of reasons a Roth conversion may not make sense for you. Let's say you just really don't like the idea of or don't want to pay income tax up front; or maybe you just do NOT trust that the government will keep their tax-free deal. Finally, if you plan to name a charity as your IRA beneficiary and it will NOT have to pay income taxes on the money it receives, you may not want to complete a conversion.

To discuss Roth conversions for your specific unique situation and learn more about ways to reduce your tax bill in retirement, contact our office to schedule a time to visit.

Richmond Brothers is here to help you make sense of your financial world.

If you have any thoughts you'd like to share, please make sure to do so in the comments below. Thank you for listening and make it a great day!

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