



Roth IRA Conversions – a Golden Opportunity for Advisors and their Clients

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Investment advisors are hungrier than ever for positive news to share with their clients – it has been scarce as of late. Thankfully, there are bright spots on the horizon for retirement planning. Imminent changes to the Roth IRA rules will open the door to over \$1 trillion dollars in potentially convertible retirement plan assets on January 1, 2010 – good news for clients and for advisors looking for new ways to grow their businesses.

Both houses of Congress have passed legislation, applicable to individuals who are age 70-1/2 or older, that provides temporary relief in 2009 from the federal laws governing required minimum distributions (RMDs) from IRAs and various employer-sponsored retirement plans. Rumor also has it that the Treasury Department may provide some type of RMD relief for 2008 as well.

Just out of reach

Since their creation in 1998, Roth IRAs have enjoyed ever-increasing popularity as a tax-savvy alternative to conventional tax-deferred retirement savings, such as traditional IRAs and traditional 401(k) salary deferral contributions. This popularity was underscored by the significant increase in the amount of annual Roth IRA contributions following the liberalization of the funding eligibility requirements in 2002.

But, even as the eligibility requirements for annual Roth IRA funding were liberalized, a provision in the federal tax law that allows certain qualifying individuals to “convert” traditional tax-deferred savings to Roth IRA savings has been kept tantalizingly out of reach for many taxpayers. To convert, qualifying individuals must include the taxable portion of the conversion amount among their taxable income for that year.

So, what are the advantages of converting traditional, tax-deferred savings to Roth IRA savings? There are three important benefits:



- The potential for tax-free growth – especially important for those who think income tax rates are likely to go up
- Tax diversification – crucial for retirement income planning
- The ability to avoid required minimum distribution at age 70-1/2 – a key feature for individuals interested in leveraging their retirement savings as part of their financial legacy

What's changing?

The Roth IRA conversion opportunity has, historically, been out of reach for many taxpayers. Under federal law, only households with adjusted gross income of \$100,000 or less have been eligible to convert Traditional IRAs to Roths. When rules change in 2010, the \$100,000 income restriction on such conversions will disappear. Moreover, there is a tax incentive for those who choose to convert during 2010. The new law allows taxpayers to forego taxes on conversions completed in 2010 and include the taxable portion of the conversion ratably in taxable income for 2011 and 2012.

Advising clients to “defer the taxes at all costs” may be good advice in most situations, but when it comes to Roth conversions that's not necessarily the case, especially in 2010.

Roth conversion analysis often fails to account for key variables crucial to an accurate analysis of the potential benefits associated with a full or partial conversion. The key question is not “*Should* I convert?” but rather, “What's the *optimal* percentage, if any, of my overall tax-qualified retirement savings that I should consider converting?” Three often overlooked variables are needed to answer this question:

1. Projected Income Needs

Since one of the key advantages of the Roth IRA conversion is avoiding RMD at age 70-1/2, the client's projected income needs during retirement relative to his overall tax-qualified retirement savings is a crucial variable in a proper Roth IRA conversion analysis.

2. Legacy Objectives

Converted Roth savings leverage the federal tax laws in favor of a client's heirs. Given current uncertainty regarding the future of estate tax laws, the ability to reduce the future value of a client's estate by paying income taxes now could yield benefits in the form of lower estate tax liability in the future. By considering the potential impact for a client's heirs and their



projected income needs, advisors are able to better quantify the potential advantages of a full or partial Roth IRA conversion.

3. Available “Outside” Assets

Many people mistakenly presume that a full or partial Roth IRA conversion only makes sense if outside assets are available for paying the resulting conversion taxes, but there’s another consideration. Depending on a client’s situation, paying some or all of the income taxes related to a Roth IRA conversion out of existing retirement savings — when other sources are not readily available — can make perfect sense. Accordingly, an in-depth Roth IRA conversion analysis should not simply “assume” that conversion taxes will either be paid 100% out of pocket or 100% out of IRA assets, but rather look at what “out of pocket” liquid assets are available for paying conversion taxes and then ask the question, “Is converting more resources likely to yield additional net benefits (e.g. projected income or legacy needs, other estate planning considerations)?”

What’s the rush – and how can this help me grow my business?

In times like these, when *good* news is scarce, these changes offer a great opportunity to reaffirm your value to your clients and open doors with prospects. For business building, advisors who seize this opportunity to be “out in front” will have a compelling reason for prospects (and the press) to listen to them. Likewise, educating centers of influence about this change will build credibility and open more doors for business development.

From a *defensive* perspective, advisors that aren’t knowledgeable about Roth changes and who don’t proactively educate their clients will likely get client calls also – to ask “why didn’t you tell me about this?” Another important reason to communicate with clients in 2009 is that among those clients for whom a full or partial conversion is appropriate, many will need planning time to be able to pay the conversion taxes.

Properly conducted, a thorough Roth IRA conversion analysis sets the stage for a comprehensive retirement income planning discussion – and opens the door for a much broader relationship.



[Advisors Trusted Advisors](#) and [Convergent Retirement Plan Solutions](#) helps advisors and retirement plan providers understand the technical aspects of and act on the unique marketing opportunity offered by Roth in 2010. We are hosting a workshop called [The Roth Factor: A Conversion Opportunity](#) on February 5, 2009 in Boston to help wealth management professionals become well-equipped to do just that.

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