Required Minimum Distributions versus Roth IRA

Houston, Texas
For Immediate Release

As you are painfully aware, the before-tax money you've put away for retirement, and which has been growing tax deferred, has a co-owner: Uncle Sam. The tax laws say you must start withdrawing and paying taxes on this money when you reach age 70½. If you fail to take the Required Minimum Distribution ("RMD") there is a penalty tax of 50% on the amount you should have taken and did not. The reason the government mandated the RMD is to assure they get their share in taxes before you expire. For 2009, the government will not impose a penalty for skipping the RMD, because withdrawing money would compound the market losses suffered by many. But, in 2010 you will again be required to withdraw from your qualified retirement money if you are 70½ or older. **What can you do if you don't want to take withdrawals?**

The only solution is to convert some or all of your qualified retirement to a Roth IRA if you can qualify. If you make more than $100,000 in taxable income during 2009, you cannot convert money to a Roth IRA; however, in 2010 this income limit will be suspended and you can qualify. When you convert your retirement money to a Roth IRA, you will pay income taxes on the amount converted, but the converted amount will not be included in the $100,000 income qualification limit. Thereafter, all the principal converted and future earnings will be 100% tax-free to you and whoever inherits the money after your death. What's more, annual distributions from a Roth IRA are not required. You can let it accumulate tax-free, or you can make tax-free withdrawals: your choice. There is one small drawback: even if you're over 59½, you cannot withdraw earnings tax-free until after five years. You will still have immediate tax-free access to 100% of the money converted to a Roth, but withdrawn earnings will be taxed during this five-year period. Withdrawals come from converted money first.

If you cannot now qualify for a Roth IRA conversion due to your annual income, you will qualify in 2010. If you convert in 2010, you will get all the benefits discussed above, but you will have to take your RMD for 2010 prior to converting. You can stretch the taxes on the amount converted over the following two tax years. One-half of the taxes will be due with your 2011 return filed in 2012 and the remainder with your 2012 tax return. Best of all, you can change your mind on a Roth conversion up until the time you file your tax return for the year in which you converted, including extensions. This means that if you convert in 2009, you can change your mind, undo the conversion anytime before October 15, 2010, and avoid the taxes. If you think you could benefit from a Roth, you should convert knowing that you can change your mind anytime up to the tax filing deadline for the year of conversion.

Other than avoiding the RMD, **why would you want to convert to a Roth IRA?** First of all, the IRS now owns a percentage of your qualified retirement money, and the best time to buy them out is when the price, and tax, is the lowest. If you have suffered market losses – and who hasn't – your tax bite will be less than if you wait until after the market recovers. What's more, if you expect future tax rates to rise – and that is the consensus forecast – you'll want to pay now in advance of the tax hike. Additionally, if you move retirement money from the "taxable" category to "tax-free" you will probably pay fewer taxes on your Social Security benefits since Roth IRA income is not counted when computing taxes on SS benefits.

Converting to a Roth IRA is not for everyone, especially if you'll need to use part of your qualified retirement money to pay the associated taxes. If you have investment losses to offset the taxes associated with Roth conversion, you certainly need to consider converting some retirement money to a Roth IRA. You'll want to work with your financial advisor to make sure you can benefit. If converting to a Roth makes sense for you, it can be done easily, without delay and at no cost other than the taxes. The Roth IRA conversion is undoubtedly one of the best ways to lower taxes and manage your estate without giving up flexibility. If you haven't already, you need to investigate this opportunity immediately.

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