

## Jeff Christie's Alpha Blog

### Can converting to a Roth IRA save you money?

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First, lets back up and define important differences between traditional IRA's and Roth IRA's.

A traditional IRA allows your assets to grow in a tax-deferred environment, meaning that you will not pay taxes on the gains or pre-tax contributions in the account until they are withdrawn. At that time, the withdrawals are taxed as ordinary income, and withdrawals prior to age 59 ½ are also subject to a 10% Federal tax penalty. Traditional IRA's can be funded using pre-tax dollars, which may be able to help you lower your taxable income if you are eligible.

As for the Roth IRA, assets inside this type of account grow tax free. Under current law, you will not pay taxes on the growth, even once you begin withdrawals, as long as the you have held the assets for over five years and have attained age 59 ½ (some exceptions may apply, may be subject to state tax). Not everyone is eligible to contribute to a Roth IRA, for eligibility requirements please review IRS Publication 590 found here [www.irs.gov/publications/p590/index.html](http://www.irs.gov/publications/p590/index.html). Roth IRA's can only be funded with post-tax money, which means you have already been taxed on every dollar you put into the account. **This also means that when you convert a traditional IRA to a Roth IRA, you must pay the applicable taxes that tax year.**

Now that we have the background, lets discuss the topic at hand; does it make sense to convert your traditional IRA to a Roth IRA? It may be a worthwhile option to examine for many reasons:

1. Congress is expected to raise marginal tax rates.
2. Account values are down due to recent market volatility.
3. The assets converted grow federally tax-free as opposed to tax-deferred.
4. You are not required to take minimum distributions from a Roth IRA at age 70 ½ as you are with a traditional IRA.

There are many things to consider before moving forward with converting to a Roth IRA. Three major factors to examine are your income, age, as well as your current and expected future tax bracket. For instance, you are ineligible to convert if your Modified Adjusted Gross Income (MAGI) is above \$100,000.00 for the tax year 2009. However, in 2010, there is a one year window where even those with MAGI above \$100,000.00 will be eligible to convert to a Roth IRA. Also, to sweeten the deal further, the government will allow you to include the converted amount in your taxable income in 2011 and 2012.

Take a look at this Roth conversion calculator <http://www.kenstern.com/money-club-pbs/financial-calculators/> to help you get started and see if conversion makes sense for you. As with anything related to your finances, please consult your investment adviser and tax professional before making changes.

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