

# STRATEGIC

LAW GROUP PC

Strategic Integrated Planning

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Subject: Strategic Law Group's "**STRATEGIC INSIGHTS**"

## **Should You be Considering Converting Your Existing IRA to a Roth IRA?**

Much has recently been written in the financial press about the benefits of converting a regular IRA into a so-called "Roth" IRA now that Congress has lifted the income limitations on taxpayers who can qualify for conversion. The benefits of Roth IRAs are pretty straight-forward -- no tax on distributions after 5 years and no minimum distribution requirement. The detriments are also straight-forward -- current taxation on the amounts converted, tempered somewhat by the recently enacted sweetener that permits the tax on a 2010 conversion to be deferred with half of it paid in 2011 and half paid in 2012.

That's all well and good, but **how are you** supposed to decide whether the benefits outweigh the detriments in your particular case? There is no one-size-fits-all answer to this question, but if you are over 50, here are four key questions you should ask yourself before seriously considering converting an existing IRA to a Roth IRA:

- Can you afford to pay the taxes imposed as a result of converting your IRA out of other funds rather than from the IRA itself?
- Do you anticipate that you won't need to start drawing down the funds in your IRA to support your life style for a minimum of five years after retirement?
- Do you anticipate retiring in a state that has income tax rates equal to or greater than the state where you live currently?
- Do you think ordinary income rates are likely to increase significantly by the time you plan on tapping the funds in your IRA?

In our experience, unless you answered yes to at least three of these four questions, it is unlikely that converting your IRA to a Roth IRA makes economic sense in your case.

It is important to remember, however, that deciding whether or not to convert your existing IRA to a Roth IRA should not be the end of the inquiry. The backbone of the typical estate plan is a revocable *inter vivos* "family" trust, which are frequently drafted based on the assumption that the decedent's interest in IRAs and other tax-qualified retirement plans will be addressed outside the family trust by designating the person or persons to receive the retirement funds.

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But handling the disposition of your IRA through the beneficiary designation process exposes the IRA to a number of hazards, including estate taxation at maximum rates, loss of control over who gets the funds in the event the named beneficiaries die or get divorced, claims of the beneficiaries' creditors, and mismanagement of the funds by the beneficiaries. All of these hazards can easily be avoided through the use of the Strategic Retirement Trust that the Strategic Law Group has developed to specifically address these issues. And the Strategic Retirement Trust is a stand-alone trust, which means that it can be implemented without the necessity of making any changes to your existing estate plan.

If you would like further information on the Strategic Retirement Trust, please contact June Waage ([jwaage@strategiclawgrouppc.com](mailto:jwaage@strategiclawgrouppc.com); 866-657-0246) for further information.