

## **Answering the Roth IRA Rollover Question Will Converting to a Roth IRA Make You Wealthier?**

Seldom in the history of the Internal Revenue Code has a new provision received more attention than the Roth Individual Retirement Account (IRA). Everyone is discussing whether contributing to a Roth IRA will help them accumulate more retirement funds than contributing to a traditional IRA. But for people with existing IRAs, an even more perplexing question arises: Should I roll over my existing IRA funds to a Roth account? If you have a traditional IRA, you can roll it over to a Roth IRA as long as your adjusted gross income (AGI) for the year is below \$100,000. At the time of the rollover, you will owe income tax on all previously untaxed earnings and contributions, but won't be subject to the 10% early withdrawal penalty.

To make the Roth IRA rollover decision, you will need to answer the following three questions:

1. Do I qualify under the \$100,000 AGI limit?
2. Am I likely to end up wealthier by paying tax on the rollover today?
3. Where will the money to pay the tax come from?

Adding to the urgency of making the rollover decision is the fact that, if you roll over your existing IRA funds in 1998 (but not thereafter), you can spread out the tax bill over four years.

### **Do I Qualify?**

If your AGI is above \$100,000, and you can't do anything to lower it, a rollover is out of the question. Because 1998 -- the best year for a rollover because of the option to spread out paying the tax -- is rapidly coming to a close, the sooner you look for ways to reduce your AGI, the better. For instance, you could:

1. Defer income into 1999.
2. Accelerate deductions affecting your AGI (such as Schedule C, partnership or S corporation deductions).
3. Maximize contributions to your retirement plans.
4. Make gifts to family members to reduce interest and dividend income.
5. Defer recognizing capital gains; offset any gain plus an additional \$3,000 with losses.

If you discover it's too late or not possible to reduce your income enough this year, don't rule out a rollover in 1999. In that case, you may want to accelerate income into 1998 and defer above-the-line deductions into 1999 to ensure your AGI is below \$100,000 next year.

### **Will It Make Me Wealthier?**

If you qualify for the rollover, analyze how the Roth IRA compares with a traditional IRA in your particular situation. The answer will depend on your age, income tax bracket, rate of investment return, where the money to pay the tax will come from and how other estate planning opportunities will be affected.

One advantage of the Roth IRA is that you can continue to make contributions even after you reach age 70 1/2, and you never have to take mandatory withdrawals. If you don't anticipate needing your IRA funds to live on during retirement, this can allow you to accumulate even more money tax-free for your heirs.

### **Will the Tax Bill Affect My Estate Plan?**

If you qualify and a rollover will eventually make you wealthier, will it hurt your other estate planning strategies in the meantime? The rollover works best if you can pay the tax with money that isn't in your existing IRA. Ask yourself whether paying the tax will affect your other planning strategies, such as making annual gifts to your children.

### **Don't Hesitate To Seek Advice**

Deciding whether to roll over funds can be difficult. Be sure to consult with an advisor to determine what is best for your situation. If you would like help determining whether to roll over your existing IRA, or trying to reduce your AGI to qualify for the rollover, please call us. We can help you evaluate how a rollover will affect your overall estate plan.