Should You Move to a Roth IRA?

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Tired of trying to meet all the rules on traditional tax-deferred saving plans? Consider switching to a Roth IRA.

Contributions to a Roth IRA are not tax-deductible. But, unlike a traditional IRA, you don't have to start taking money out (or stop putting money in) at age 70 1/2. With a Roth IRA, there are NO minimum distributions during your lifetime. And, after five years or age 59 1/2 (whichever is later), distributions to you and your beneficiaries will be income tax-FREE.

Are You Eligible to Convert?

You can convert some or all of your traditional IRA if your adjusted gross income is less than $100,000. The same income limit applies to individuals and married couples filing jointly, but there are special rules that apply to married couples filing separately. If you did not live with your spouse at any time during the year and you file a separate return, your filing status for this purpose is single. If you file a separate return and you did live with your spouse at any time during the year, you are not eligible to convert to a Roth IRA.

TIP: Income taxes will be due on the amount you convert, just as if you made a withdrawal. But it can be well worth it. You may also be able to set up a new Roth IRA and make after-tax contributions to it.

TIP: You can stretch out a Roth IRA just like a regular IRA. After you die, distributions will be paid over the actual life expectancy of your beneficiary. Your spouse can even do a rollover and name a new beneficiary.

TIP: If you are eligible and want to convert to a Roth IRA, start planning now. You may be able to defer income to get under the $100,000 AGI limit.

TIP: You can only convert from a traditional IRA. If your money is in a pension, 401(k), etc., you must roll it into a traditional IRA first and then convert.

Consider converting to a Roth if:

1. Your IRA is small and/or you are in a low tax bracket.
2. You made non-deductible contributions that won't be taxed when you convert.
3. Your retirement tax bracket will be the same or higher than now.

4. You can pay the tax without dipping into your IRA.
5. You won't need your IRA in retirement and want to let it keep growing tax-free.
6. You are already taking distributions and want to eliminate the annual distribution.

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