

Roth Conversions Favor the Wealthy

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Recent tax law changes that allow anyone, regardless of income, to convert traditional IRA accounts to Roth IRAs has set in motion a wave of questions from investors about whether or not a Roth conversion is right for them.

There is one rule of thumb: convert to Roth if you think your tax rates will be higher in the future, and you have money outside of the IRA to pay the taxes owed. Pretty straightforward, however few know exactly what tax rates will be in the future.

There is one segment of taxpayers, however, that are pretty much assured of paying higher taxes in the future – the wealthy. For anyone who is in the highest tax bracket, and expects to stay there, doing a Roth conversion is pretty close to a no-brainer.

At Colorado Capital Management, the Roth conversion is much more of a process than an event. First, we need to make sure that it makes sense given individual circumstances. Secondly, we need to consider whether a full, or partial, conversion is best, and over what period of time (sometimes multiple years). Finally, we monitor the progress of the converted Roths to make sure the strategy is working as planned. After all, the best kept secret about Roth conversions is that you have up until your tax filing deadline to “undo” the conversion. So, if you thought a conversion was a good idea, but it turned out to not be the case, you do have an out.

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