TO ROTH OR NOT TO ROTH?

(WHY WE ARE SUCH BIG FANS OF ROTH IRAs AND ROTH CONVERSIONS)

While everyone's personal situation is different, and while there are certainly times and circumstances in which funding a Roth IRA, or converting a tax deferred account to a Roth IRA would not be advantageous, we generally find that most people find one or more of the following pro-ROTH reasons fit into their plans and expectations:

- They expect tax rates may be higher, or possibly much higher in the future—with the nation's rapidly aging population putting more and more strain on the large social programs like Medicare, Medicaid and Social Security (not to mention many other unfunded government liabilities), and record debt levels above $20 trillion, a compelling case can be made for the "higher taxes are coming" camp.

- They expect to live for quite a few years after they convert to the Roth—with more people living well into their 80s and 90s (and beyond), a conversion to a Roth IRA that is done in their 50s or 60s, or even their 70s, may be a wise move, and provide them with many years of tax free growth or income.

- They expect to realize significant growth on the assets they are converting—for those investors who include some aggressive growth funds or individual growth stocks in their IRAs, having all that growth occur in a tax free account is appealing, and can help build overall wealth faster.

- They would like to leave a tax free legacy—for those retirees who are concerned about legacy planning, a ROTH IRA can be a powerful estate planning tool, as the money is tax free to their beneficiaries as well. Their beneficiaries will need to establish an "inherited ROTH IRA" in the name of the decedent, and do need to take out annual required minimum distributions according to the appropriate IRS tables, but those distributions are small and they are tax free- and the rest of the account balance continues to grow tax free over the life of the beneficiaries.

- ROTH IRA owners avoid required minimum distributions (RMDs)—for retirees over the age of 70 and a half with substantial amounts of money in their traditional IRAs or other tax deferred qualified retirement accounts, their annual Required Minimum Distributions can and often do put them into higher marginal tax brackets, or cause more of their Social Security to be taxed, or possibly increase their Medicare premiums. Since there are no RMDs attached to ROTH IRAs, the ROTH owner can avoid all of the taxes and surcharges and deadlines and penalties associated with traditional IRAs and qualified plans.