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Convert to a Roth IRA after retirement?

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Should you convert a traditional IRA to a Roth IRA after retirement? With retirees enjoying longer lives these days, a post-retirement conversion to a Roth IRA could have advantages for certain investors.

A Roth IRA can be a good savings vehicle for those still working, thanks to the tax-free treatment of qualified earnings. A Roth IRA conversion can also benefit a retired investor. Since there are no minimum distribution requirements, Roth IRA assets can be invested for a longer period and thus have more time to work for you. For a recent retiree, that could mean your assets could potentially have 10 or 20 years to grow on a tax-free basis.

However, you must weigh the benefit of tax-free treatment against the costs of the conversion (in terms of the federal income taxes paid on the converted amount). Furthermore, a Roth IRA conversion generally works best when an investor has a longer investment time horizon.

Generally, you should only consider a post-retirement Roth conversion when you have assets outside your traditional IRA to pay the taxes on the converted amount. Also, if you would end up paying more taxes on the conversion than you would if you leave the assets in your traditional IRA for withdrawals later in life, then a Roth IRA conversion might not be in your best interest.

Some rules to consider: You are only eligible to convert a traditional IRA to a Roth if your modified adjusted gross income is below \$100,000 and you file a joint return with your spouse or you are single. The good news is that the amount of traditional IRA converted are no longer included in your MAGI to determine your eligibility for a Roth conversion.

Another rule you should be aware of: If you convert to a Roth IRA after age 70.5, you must take one last required minimum distribution from your traditional IRA for the year in which you make the conversion. The remaining assets in your IRA are then available for conversion to a Roth.

Although distributions from a Roth IRA typically come out tax-free upon retirement, you must satisfy a five-year holding period requirement to achieve this benefit.

Please also note that early distributions prior to age 59.5 can be subject to ordinary income taxes and a 10 percent income tax penalty.

Warren W. Wall CFP, CSA is a local financial author and advisor with W. Wall & Company, Inc. a Registered Investment Advisor. Are you asking tough questions about retirement? For more info and a free

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