



ED SLOTT'S IRA ADVISOR

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Tax & Estate Planning for Your Retirement Savings

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Tax Withholding
Distributions Offer Safety
and Simplicity

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Roth IRA Conversion for All Ages

Questions regarding how age affects the decision to convert to a Roth IRA are common. Oftentimes retirement savers search for a definitive line in the sand. *How old is too old to convert?* There is no easy answer to this question because there is no universal magic number. When a Roth conversion makes sense (or no longer makes sense) is a personal choice and different for every account owner. A conversion can potentially be the right move at any age. However, a person's age will impact the factors to be considered when determining whether to proceed with a conversion strategy or not.

Roth IRA Conversion for Younger Savers

Roth IRA conversions for younger people are usually a wise strategy. Younger people are generally in a lower tax bracket and have not yet accumulated large sums of money within their IRAs or 401(k)s. As such, a conversion should not generate a large tax hit. Also, time is on their side. Younger people have an extended time horizon to save and accrue tax-free earnings in a Roth IRA.

Example 1: Harry, age 28, has a traditional IRA with a modest balance. Harry should seriously consider converting to a Roth IRA. At this stage of Harry's life, he is likely in a low tax bracket, so a Roth

IRA conversion will have a low tax cost. Harry understands that even a small conversion today can grow considerably by the time he turns age 59½, at which point he will be eligible for tax-free Roth IRA withdrawals.

Conversion comes with a tax bill. Any individual who converts should be reminded of that before moving ahead with the conversion. Younger people who may not have amassed large amounts of savings should be prepared for the tax cost. Since recharacterization is no longer available, there is no way to undo a conversion to escape the tax hit.

Be careful! If a person under age 59½ plans to pay the conversion tax with IRA dollars via tax withholding, they should strongly reconsider. Withheld tax is not actually converted. So, the tax withheld will be an early withdrawal and will be subject to the 10% penalty (if no exception applies).

Midlife Conversion Opportunities

For middle-aged savers, Roth conversions can also be a good planning opportunity. However, this may be a more complicated analysis than for younger converters.

A Roth conversion makes sense for those who are concerned that they will be subject to future tax rate increases. Higher earners are likely to be good candidates.



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