ED SLOTT'S IRA ADVISOR

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Tax & Estate Planning for Your Retirement Savings

WHAT'S INSIDE?

Join the Retirement Planning Conversation

Whiplash: Retirement Account Opportunities & Mistakes During Market Volatility

For retirement savers, unprecedented fluctuations in the stock market, along with increasing discussions about a potential recession are, to say the least, unnerving. While market pullbacks are concerning, they can create opportunities for those with a long-term view. Such volatility can also lead to panicked decisions that create unnecessary financial pain. As we ride this market roller coaster, it is important for retirement account owners to both identify the potential opportunities and avoid mistakes.

Roth Conversions

Roth conversions represent a supreme opportunity during a market downturn. The benefits of a Roth IRA are many: Roth IRAs have no lifetime required minimum distributions (RMDs) and remove the uncertainty of what future tax rates might be; Roth IRAs are more favorable for estate planning, especially when naming a trust as beneficiary; and Roth IRA funds usually pass income tax free to beneficiaries. While anyone with a retirement account that is eligible to be rolled over can do a Roth conversion, there are ways to maximize the tax advantages of this transaction.

The best time to do a Roth conversion of a retirement account holding stocks or stock funds is when the market is down. Converting when investments are "on sale" allows the account owner to buy low and then reap the reward of tax-free growth when markets rebound. The problem is that no one can perfectly time the market. However, for anyone anticipating a Roth conversion later this year, it might be wise to expedite those plans to take advantage of lower market levels. Additionally, anyone who is "dollar cost averaging" their Roth conversions (i.e., converting a little each month or quarter in an effort to smooth out volatility) might want to increase their next conversion amounts.

Example 1: Ray is steadily converting $5,000 of his investments in his traditional IRA to his Roth each month, with a final annual target of $60,000. With a recent market downturn, Ray increased his April conversion to $10,000. He will do the same in May if markets continue to fall. By "dollar cost averaging" into a Roth IRA with a sequence of partial conversions, Ray created an opportunity to convert more shares at lower costs, thereby maximizing his tax efficiency.

Featuring the latest retirement tax law changes, including the NEW SECURE Act 2.0 and the latest RMD rules *in effect now and beyond!*

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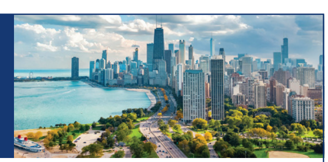

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