



Topic: Retirement

## To Roth or Not to Roth?

**Hurry – the tax man's special deal on spreading out the tax hit expires in a few more months.**

Randy Myers

This year, for the first time, high-income earners can convert a traditional IRA to a Roth IRA. Should you? Financial coach Matthew Sapaula -- better known as the "Money Smart Guy" on radio station WLS-AM 890 in Chicago -- says answering these four questions should help you decide.

### **Do I expect my income to be higher or lower in retirement?**

Higher income in retirement argues in favor of the Roth. Remember, IRAs and Roth IRAs differ only in their tax treatment. With a regular account, you get a tax deduction for contributions, but you pay income taxes on withdrawals. With a Roth, it's the opposite: You forfeit the up-front tax deduction, but withdrawals are tax-free after a five-year holding period and after you are 59 1/2 years old. Since higher income in retirement could throw you into a higher tax bracket, it's better to convert to a Roth and pay the IRA withdrawal taxes now, while you're still in a presumably lower tax bracket. "And for this year only, the IRS is allowing you to pay the taxes you incur over a two-year period rather than one year," says Sapaula.

### **Do I expect overall tax rates to be higher or lower after I retire?**

Again, higher rates argue in favor of the Roth. And with ballooning federal deficits, many economists fear that higher tax rates are inevitable. Plus, this is the first year Social Security is going to pay out more in benefits than it is collecting in payroll taxes.

### **How will I pay the income taxes due upon conversion?**

Paying today's tax hit with money outside of your IRA maximizes the odds that converting to a Roth IRA will leave you with a bigger nest egg upon retirement. If you have to use some of your IRA money to pay that tax bill, converting looks less attractive -- especially if you're under age 59 1/2. In that case, the IRA money you use to pay taxes would be hit with a 10 percent early withdrawal penalty, too.

### **Will converting push me into a higher tax bracket this year?**

If the taxable income represented by your IRA conversion would push you into a higher tax bracket this year, it would make it harder to reap the benefits of converting.

Still not sure if you want to go all-in on a Roth IRA conversion? Consider hedging your bets by converting just a portion of your IRA. That could solve the problem of being thrown into a higher tax bracket this year, and provide some tax flexibility in retirement. With both types of accounts, you could choose which to draw down first, depending on your tax situation at that time. "If you can do it, converting could be ideal," Sapaula concludes. "Because you will need every dollar you can get your hands on to get you to retirement and throughout."

***Randy Myers** is a contributing editor for CFO and contributes small-business articles for MSN's Business on Main. He was a reporter and editor for Dow Jones News Service, a columnist for The Wall Street Journal Europe, and a contributor to Barron's. At Dow Jones & Co., he co-developed and became founding managing editor of A stock market newswire, Dow Jones Professional Investor Report (PIR).*