



Is a Roth IRA Conversion Right for You?



Terry D. Higdon | Asset Preservation Group
12312-C Shelbyville Rd. Louisville, KY 40243
www.apgky.com | (502)653-7981 | Terry@apgky.com

DISCLAIMER: Disclaimer: Investment advisory and financial planning services are offered through Alphastar Capital Management LLC, a SEC registered investment adviser. SEC registration does not constitute an endorsement of the firm by the Commission nor does it indicate that the adviser has attained a particular level of skill or ability. Asset Preservation Group and Alphastar are separate and independent entities.

If you have qualified funds in your retirement portfolio and are concerned about future tax law changes, converting those eligible funds to a Roth IRA could be a good solution.

Differences Between a Traditional and Roth IRA

Traditional IRAs are usually funded with before-tax dollars and are generally fully taxable when withdrawn. The owner of a traditional IRA generally has required minimum distributions (RMDs) beginning at age 72. If withdrawals are taken before age 59 1/2, they may be subject to a 10% federal additional tax.

Roth IRAs are funded with after-tax dollars. Distributions after age 59 1/2 are completely income-tax-free as long as the Roth IRA owner has met a five-year requirement, determined by the date the owner first funded any Roth IRA. No required minimum distributions apply during the owner's lifetime, but certain RMD rules do apply to Roth IRA beneficiaries.

What is a Roth IRA Conversion?

A Roth IRA conversion entails taking all or a portion of funds from a traditional retirement account and converting them to a Roth IRA. This could also apply to pre-tax funds in a qualified plan like a 401(k). Since you are moving pre-tax dollars to a post-tax account, you owe income taxes on the amount converted in the year of conversion. This can be paid with funds outside of your IRA or qualified plan.

A few of the advantages of this strategy include:

- Tax-free growth inside of Roth IRAs.
- Qualified distributions from Roth IRAs are income-tax free, providing flexibility to choose when to take these distributions for smarter tax management.
- There are no RMDs for Roth IRA owners, but certain rules apply to Roth IRA beneficiaries.
- There is a potential for lower taxes if the income tax bracket is projected to be the same or higher at the time of distribution than at the time of conversion. A Roth IRA conversion could lower your income-tax bracket in the future since qualified distributions from a Roth IRA are income-tax free.



Some other items for consideration:

- Roth IRA conversions are subject to ordinary income tax on the entire amount of the conversion in the year of conversion.
- Distributions may be subject to the 10% federal additional tax if removed within five years of the conversion.

How it Works:

Jim and Linda are both 66 and retired. They have a pension and Social Security benefits that amount to a taxable income of \$65,000 a year. In 2020, they are in the 12% tax bracket (\$19,751-\$80,250) and are concerned that future tax law changes could put them in a higher bracket.

Jim and Linda also have a traditional IRA with an account value of \$750,000. In a few years, they will be required to start taking Required Minimum Distributions from this account that could bump them up to the next tax bracket.

While a Roth conversion is a fairly simple concept, there are many things to consider and several ways to do it. After discussing all of the variables with their financial professional, Jim and Linda decide to use a method often called "tax-bracket stuffing."

With a taxable income of \$65,000, there is \$15,250 until they hit the top of the bracket - \$80,250. If Jim and Linda convert \$40,000 from the traditional IRA to a Roth IRA, they are bumped in to the 22% bracket, but once the standard deduction of \$24,800 is applied, their taxable income will be \$80,200.

By converting some of the funds from their traditional IRA to a Roth IRA, they can choose the amount of the distribution, so it stays within their lower tax bracket of 12% once the standard deduction is applied. And since qualified distributions from a Roth IRAs are income tax free, Jim and Linda have the flexibility to choose when to take these distributions for smarter tax management.

If this method is used each year until Jim and Linda turn 72, they will continue to reduce the amount in their traditional IRA and increase the amount in their Roth IRA.

Want to learn if a solution like this is right for you? Call us today to discuss your financial goals.

So What's the Next Step?

Your receipt of this report entitles you to a complimentary one hour session to explore the benefits of diversifying your assets with your taxes in mind. Any customary hourly planning fees associated will be waived for this one hour session.

What should you expect at this one hour session? Below are some frequently asked questions about what we call the, "59-Minute Financial Wellness Consultation."

Q: What will this meeting consist of?

A: This meeting is simply an opportunity for you to ask any questions that you may have related to the diversification of your assets with taxes in mind, as well as your personal finance and retirement. Throughout the course of the meeting, we will ask questions about you and your situation. We've found that everyone's definition of a comfortable retirement is a little different, and that everyone's situation is unique. Our goal is to learn about your personal goals as we explore how to help you retire the way you want.

Q: Why do you offer this free consultation?

A: Simple. It gives us an opportunity to meet people from around the area that may have questions about financial matters. It's no secret that we would love new clients. Gaining new clients is the way that our business grows. However, we want to provide a comfortable environment for exploring a new, potential professional relationship — for you and for us. By offering an hour of our time for free, it provides a nonthreatening way for us to spend some time with you to see if it makes sense for us to continue discussions into the future.



Q: Will there be a sales presentation?

A: Not at all. In fact, we are very hesitant to talk about any potential solutions to any questions or concerns you may have. It is important for us to understand your goals and desires about what retiring or investing for your future means to you. We feel it would be financial malpractice to begin exploring solutions prematurely. We tend to look at the first meeting as an opportunity for you to ask some questions and for us to get to know each other. Furthermore, we can both be more informed by the end of the meeting which will help determine whether or not it will be beneficial for us to meet again.

Q: How long will the meeting last?

A: About 59 minutes. Most of our meetings are stacked throughout the day. Future sessions may require more time, but we've found that an hour, provides a good basis for getting to know a little more about each other.

Q: What should I bring to the meeting?

A: We are sensitive to the fact that your personal financial information is just that — very personal. However, it is hard for us to help if we don't have at least a fundamental understanding of your financial position. We ask that you bring information regarding your financial accounts and your previous year's tax return. However, we follow a pretty strict policy of not looking at any of this until you are comfortable with us doing so.

Q: What will happen after the meeting?

A: If we both decide that it would be beneficial to meet again, we'll schedule another time to get together. At that meeting we would introduce to you the various areas in which our firm may be able to provide value to your situation. Again, we shy away from offering solutions at this point because we still consider it to be a discovery meeting. At that point, you should be in a better position to make an educated decision as to whether you wish to engage the services of our firm.



Q: Who should come with me?

A: We do ask that if you are married you bring your spouse with you. If you wish to bring any children with you to the meeting, you are welcome to do so. For that matter, anyone that you may utilize in helping you with your retirement and personal finances is welcome to join.



We look forward to meeting with you!



**Visit Us at our Website at www.apgky.com
Or Call our office today! 502.653.7981**

Disclaimer: Investment advisory and financial planning services are offered through Alphastar Capital Management LLC, a SEC registered investment adviser. SEC registration does not constitute an endorsement of the firm by the Commission nor does it indicate that the adviser has attained a particular level of skill or ability. Asset Preservation Group and Alphastar are separate and independent entities.