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Should you convert IRAs?

Financial planners say there's no easy answer.

By Crissa Shoemaker DeBree
Staff writer
cshoemaker@phillyBurbs.com
215-345-3186

To Roth or not to Roth?

That, apparently, is the big question in the financial planning industry. And there's no easy answer.

The government in January began allowing households with a gross income of more than $100,000 to convert traditional IRAs into Roth IRAs.

In a traditional IRA, you pay taxes when you put money in, and take it out tax-free. It's the opposite with a Roth: You pay taxes on your withdrawals, not your contributions.

The difference is simple. But deciding whether to convert is a complicated process that should take into account a myriad of factors, financial experts say.

Nancy Walsh, a tax law and employee benefits expert for the Haddonfield-based law firm of Archer & Greiner, said a big factor is how much time you have before you retire.

"The longer you have the money in the Roth, the more time you have to accumulate tax-free earnings," she said. "If you have a long time to accumulate earnings, that's in favor of doing the Roth."

Other factors include your earnings potential over time and your tax bracket now and in retirement, Walsh said.

You also have to determine if you can afford to make the switch.

When you convert, you must pay taxes on the entire amount that's going from a traditional IRA to a Roth. You can borrow the tax money from your account — but you may end up paying the early withdrawal penalty. If you don't have enough time to recoup your losses from investment gains, it doesn't make sense to convert, said Jim Revels, a partner in the tax and accounting firm Citrin Cooperman in Philadelphia.

"In that scenario, that individual all of the sudden doesn't become as good a candidate, because they have to liquidate part of their retirement plan and they'd have to invest those monies longer to get to that break-even point," he said.

Both Walsh and Revels said the longer you have before you retire, the more attractive a Roth IRA becomes. However, if you expect your tax bracket to be lower upon retirement, a traditional IRA might save you money.

"If you're already in the 39.6 percent (tax) bracket, and you're an individual who has a rather large pension plan that continues to pay out, and you know you're always going to be in that bracket, that becomes another good potential (for a Roth)," Revels said. "Pay that tax now with after-tax money, and let that money grow deferred."

If you don't plan on withdrawing any money from your IRA upon your retirement and instead will leave it to family members, a Roth IRA might be best, Revels said. But if you'll leave it to a charity, keep it in a traditional IRA - the charity won't have to pay taxes when it takes the money, he said.

"Every person's factual criteria are different," Revels said. "All the facts and circumstances have to be weighed in order to determine what is the best future retirement vehicle for that individual and their family."


Business

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On the Web

The following sites will help you choose between a traditional and a Roth IRA:

http://www.bankrate.com/calculators/retirement/convert-ira-roth-calculator.aspx

http://scrs.schwab.com/tools/schwab_roth_401k_calc.htm

http://www.money-zine.com/calculators/retirement-calculators/roth-ira-funds-calculator/

Source: Nancy Walsh, Archer & Greiner