



## FA NEWS

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### ROTHS AS TOOLS FOR WEALTH TRANSFER

Converting a traditional IRA to a Roth IRA makes sense for many older people who want to create a tax-free legacy for heirs. For them, a common equation that Roth conversions aren't for anyone over 50 simply doesn't apply.

Someone in their 60s, 70s or even older can get a lot out of switching to a Roth, if the idea is to transfer wealth and not just shelter savings from the tax man. That presumes two conditions: The investor never needs to live off the account, and has enough money from other sources to pay taxes on the conversion.

In such a case, "there's a high likelihood" that switching to a Roth would make sense," says Don Weigandt, a wealth advisor in the Los Angeles office of J.P. Morgan Private Bank. His firm is starting to talk to its clients about Roth conversions, as a low ceiling on eligibility is about to be lifted.

Right now, anyone who earns over \$100,000 modified adjusted gross income can't make the switch. That ends in 2010 under the Tax Increase Prevention and Reconciliation Act, enacted in 2006. There's no ceiling for conversions under the law.

J.P. Morgan clients, who are generally very wealthy, "have never been able to do this because they would have had to get their adjusted gross income below \$100,000 and that just wasn't going to happen," says Weigandt.

A 75-year-old man recently came to John Carl, president of the Retirement Learning Center in New York, about converting a very large traditional IRA to a Roth. The man's age made it seem like a bad idea at first, but Carl ultimately changed his mind. The client was determined to leave a nice fortune to his heirs; more importantly, he didn't need the IRA to live on, and could afford to pay conversion taxes from another pool of money.

Says Carl: "When the Roth passes to heirs, it begins generating a tax-free income for them for the rest of their lives, and that's a heck of a gift. I think they'll remember you fondly for that."

Heirs do have to take distributions from an inherited Roth, but don't have to pay tax on them. An exception is if the person who created the Roth died within five years of doing so; even in that case, though, no taxes will be due if the Roth creator had another Roth more than five years old.

Stephen J. Bigge, a certified public accountant and tax manager at accounting firm Baker Tilly Virchow Krause LLP in Appleton, Wis., says the most frequent question he gets from CPAs when lecturing on financial topics is "when does the Roth make sense?" The answer is not always simple, he says. Future tax rates and time horizons should get serious thought. But Bigge agrees that a Roth conversion makes good sense for many wealthy older people.

Financial advisers often use 50 years of age as a cut-off for Roth conversions for anyone who plans to retire on an account. The logic is that it's not worth paying taxes on a conversion if money won't sit in the account for at least 10 years. In fact, "there's all kinds of math to do on this, and it can still pay in your 50s and 60s," says Ed Slott, an IRA expert and author of several books on IRAs, including "Your Complete Retirement

Planning Road Map."

For anyone 70 and older who converts to give to the next generation and doesn't need the money, says Slott, "it's a no-brainer."

"You're transferring taxable money to tax-free accounts for the rest of your life and your grandkids' lives."

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