

Roth Assets for High Net Worth Investors

Having a pool of tax-free Roth assets (either Roth IRA or Roth 401(k)/403(b) assets) is one way to reduce tax liability in retirement and provide income flexibility. Not only are qualified Roth distributions tax free to their recipients, they are not included in income for determining taxability of Social Security benefits, plus Roth assets offer estate and legacy planning benefits. There are many reasons to Roth, but currently, not everyone qualifies to accumulate Roth assets. That will change on January 1, 2010.

Our ERISA consultants on the Columbia Management Resource Desk have been answering an increasing number of calls from financial advisors who have specific questions about securing Roth assets for the future. Through our relationship with the Columbia Management Learning Center, we regularly guide Columbia Management's financial advisor partners through the rules and regulations that apply to Roth IRAs, Roth 401(k)s/403(b)s and conversions. A recent call with an independent financial advisor in Iowa is representative of a typical question on this subject. The advisor posed the following query.

I work with high net worth (HNW) clients who do not qualify for deductible traditional IRA contributions or Roth IRA contributions because of their modified adjusted gross income (MAGI) levels. How can these clients accumulate Roth assets?

Highlights of Recommendations

- HNW investors potentially have three ways to accumulate Roth assets: 1) as beneficiaries of Roth IRAs or Roth 401(k)s/403(b)s; 2) by contributing to their own Roth 401(k)s/403(b)s; and/or 3) by executing a Roth IRA jump start strategy.
- About 30 percent of 401(k) plans offer a Roth contribution option at this point.¹ If the investor is not lucky enough to have access to a Roth 401(k)/403(b) through his/her employer, the individual perhaps could start his/her own solo 401(k) with a Roth contribution option based on self-employment income.
- A Roth IRA jump start strategy consists of making *nondeductible* traditional IRA contributions and converting the assets to a Roth IRA.
- Wage earners under age 70 ½ can make nondeductible contributions to their traditional IRAs regardless of their MAGI level. In 2010, law changes liberalize conversions by eliminating the \$100,000 MAGI threshold limit and filing status requirement. Consequently, anyone will be eligible to convert qualified plan or IRA assets to a Roth IRA.

Conclusion

Affluent investors may be under the impression that they are ineligible to accumulate tax-free Roth assets for retirement or legacy planning purposes. With the help of the Columbia Management Resource Desk, financial advisors can understand the various Roth options,

¹ Deloitte, 401(k) Benchmarking Survey, 2009 edition



and help their HNW clients identify opportunities they may have overlooked to secure tax-free assets for retirement and/or their heirs.