

# Is a Roth IRA right for you?

## Converting from a tax-deferred IRA to a Roth IRA

Anyone is eligible to convert tax-deferred IRAs (traditional, SEP or SIMPLE) to a Roth IRA. Converting allows for tax-free accumulation as well as tax-free withdrawals in retirement and for your heirs.

---

### What are the benefits of converting to a Roth IRA?

With a converted Roth IRA:

- You can have tax-free income in retirement – which means you don't have to worry as much about future income tax rates
- There are no required minimum distributions (RMDs)
- You can create a tax-free legacy for your heirs
- You have access to the dollars you converted penalty-free before age 59½\*

### Tax considerations

It's important to note that your income tax liability on a conversion is based on the income tax bracket into which you fall based on all your taxable income, including the value of the conversion. The amount you convert will be included in your taxable income in the year you convert.

If you have a mixture of pretax and after-tax assets, a pro rata formula will be used to calculate your income tax liability.

Converting your tax-deferred IRA to a Roth IRA is not an all-or-nothing decision – converting a portion of your IRA is also a strategy to consider.\*

### Decision factors

A variety of factors may play in to your decision to convert, so keep your end goal in mind. A few key factors include the following:

- Will you be able to afford the taxes due?
- What is your tax rate now and in the future?
- When do you need to make withdrawals?
- Do you have a desire to leave a tax-free IRA to your heirs?

## Case studies

Below are examples of Roth IRA conversion situations. You, your financial advisor and a tax professional can help determine a strategy that best suits your situation. These are hypothetical illustrations for informational purposes only. Each individual's situation is different.

### ***Barbara, the retiree***

Barbara is 72 and taking RMDs from her traditional IRA that she doesn't need. After paying taxes on each RMD, Barbara reinvests it in her money market fund. Currently, Barbara is in the 25% tax bracket and is considering a Roth conversion so she can leave a Roth IRA to her grandson, Bobby.

It appears that Barbara's top priority is to leave a tax-free legacy to her grandson. The next step is for her to schedule an appointment with her financial advisor to understand how a conversion may benefit her and Bobby.

### ***Kevin, the business owner***

Kevin is a 55-year-old small-business owner who for the past 15 years has not been able to contribute to a Roth IRA because of his high earnings. He has a traditional IRA that he opened in the past, but to which he no longer contributes. Currently, he is in the 33% tax bracket and would like to retire in five to seven years.

Kevin would like to talk further with his financial advisor to understand his potential income tax liability and if he is eligible to convert.

### ***Sally, the individual investor***

Sally is a single, 50-year-old nurse in the 25% tax bracket. She got a late start on her retirement savings but has a traditional IRA.

After hearing more about the Roth IRA, she recently opened one but is curious as to whether she should convert her traditional IRA to a Roth. Sally doesn't know how much a conversion would cost or if it is right for her to do at this time. She scheduled an appointment with her financial advisor to discuss whether this opportunity makes sense for her.

### ***Tom, the non-IRA owner***

Tom is a 40-year-old doctor who has not been eligible to contribute to a Roth IRA or make tax-deductible contributions to a traditional IRA because of his high income. Therefore, he does not have an IRA. He likes the idea of having tax-free income in retirement and wants to take advantage of tax law changes. Tom is considering making nondeductible contributions to a traditional IRA and immediately converting them to a Roth IRA. He decides to contact his local financial advisor to discuss this opportunity further.

You, your financial advisor and a tax professional can help determine a strategy that best suits your situation.

\*A five-year holding period applies to each conversion. Conversion dollars distributed from a Roth IRA may be subject to a 10% penalty if the client has not satisfied the five-year holding period for the conversion and is under age 59½. A five-year holding period also applies to earnings. Earnings distributed from a Roth IRA may be subject to income tax and a 10% penalty if the client has not satisfied the five-year holding period and is under age 59½.

Edward Jones, its employees and financial advisors cannot provide tax or legal advice. Please consult your attorney or qualified tax advisor regarding your situation.



**Suzy W Myers, CFP®, AAMS™, CRPC™**  
Financial Advisor

16141 Cleveland St Suite A  
Redmond, WA 98052  
425-867-5187

edwardjones.com  
Member SIPC

**Edward Jones**<sup>®</sup>  
MAKING SENSE OF INVESTING