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8 Compelling Tax Reasons For Roth IRA Conversion

Should you convert assets in a traditional IRA into a Roth? It depends on your personal circumstances and preferences, and there's no right or wrong answer. Still, there are a number of significant reasons why you might want to pull the trigger on a Roth conversion. Consider these eight:

1. **Tax bracket management.** Most people who hesitate to make a conversion are stopped by the tax consequences—that you will owe income tax on whatever part of the converted amount that hasn't already been taxed. But you could minimize the pain of that by making gradual, year-by-year conversions in which you transfer only as much as will take you to the upper limits of your current tax bracket. That lets you avoid having much of the conversion taxed at a higher rate, and you can repeat this strategy in subsequent years until you've converted most or all of the funds in your traditional IRA.

2. **Tax-free payouts.** Once you've paid the conversion tax, it can be free sailing as far as taxes are concerned. Investment income and capital gains in the Roth aren't taxed now and won't be taxed at all if withdrawals are made from a Roth that's at least five years old and come out of the account after age 59½, because of death or disability, or to pay first-time homebuyer expenses (up to a lifetime limit of $10,000).

3. **Minimizing net investment income tax.** Some investors must pay a 3.8% surtax on whichever is lower—their net investment income (NII) or the amount by which their modified adjusted gross income (MAGI) exceeds $200,000 for single filers or $250,000 for joint filers. Although payments from traditional IRAs don't count as NII, they are part of your MAGI for this purpose. But the tax-free distributions from a Roth leave your MAGI untouched.

4. **No required distributions.** With a traditional IRA, you must begin taking required minimum distributions (RMDs) in the year after the year in which you turn age 70½—and then you have to keep taking RMDs every year for the rest of your life. The amount of the annual RMD is based on a life expectancy table and the balance in the account at the end of the prior year. However, that doesn't happen with a Roth IRA. You can leave your account intact if you don't need the cash, preserving a larger nest egg for your heirs—and one that they, too, will be able to tap without income tax consequences.

5. **Flexibility during retirement.** If you convert some or all of your

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Could Estate Tax Repeal Or Reform Become A Reality?

As Yogi Berra once said, "It ain't over 'til it's over." Although tax legislation enacted in 2012 included several "permanent" estate tax provisions, including a top estate tax rate of 40% and a maximum exemption of $5 million, indexed for inflation ($5.43 million in 2015), there's no guarantee that Congress won't tinker with the law again. In fact, it's a good bet there will be more changes.

Earlier this year, the House Ways & Means Committee got the ball rolling by approving a bill to repeal the federal estate tax. Although the measure passed along partisan lines and appears unlikely to make it into law, it indicates that estate tax reform is back on the table.

The estate tax was repealed in 2010, but just for one year, before being reinstated. Coincidentally, that was the year that New York Yankees owner George Steinbrenner died, costing the government about $600 million in tax revenue.

The new House bill contains another twist. In 2010, although there was no estate tax, another tax break—one that limits capital gains taxes on inherited assets in excess of $1 million—was eliminated for non-spousal heirs. The current bill would set that threshold 20 times higher, at $20 million.

But there's a long way to go before any estate tax changes are formally written into law. We will monitor developments affecting your estate plan.

Bull Or Bear Market? Plan Both Ways

After recent good times on Wall Street, some stock market prognosticators are predicting a reversal of fortunes for the remainder of 2015, while others expect a more favorable outcome for investors. But no one knows what actually will happen next, and the best thing you can do is to plan for all possibilities. You also can learn from stock market history, while recognizing that past performance is not a guarantee of future results.

The stock market is known as a leading economic indicator—that is, it tends to rise or fall in advance of economic gains or losses. That's what happened when the most recent bear market bottomed out in March 2009. Finally, several months later, the U.S. economy, too, moved into positive territory, although the recovery has been painfully slow by historical standards. But during most bull markets, the economy is strong and unemployment low. Consumers feel relatively confident, and their outlays help fuel economic growth. And because times are good, people usually are more than willing to take the risk of owning stocks.

Conversely, worries about the economy may make investors sell their stocks, and that drop in demand can lead to a bear market. Usually, prices will begin rising again after a fall of 40% or so. But in a particularly bad bear market, such as during the Great Depression, that percentage can be significantly higher. As the economy sputters and unemployment rises, investors shy away from taking risks in the market.

The best strategy to use in a bull market is to try to gauge sector and broad market trends and invest wisely. Just don't be tempted into thinking you can time the market better than anyone else.

It's a little trickier during a bear market, but there are some options. For instance, you might consider "selling short"— borrowing stock you don't own, selling it, and waiting for the price to drop. Then if you're able to buy back the stock at a lower price, you'll profit. U.S. Treasury Bonds also may be a sound investment when stock prices fall, in part because of demand by U.S. and foreign investors looking for a safer place to put their money. You also may decide to invest in defensive stocks, such as those of utilities, which usually don't fluctuate much in times of uncertainty.

But the main thing to learn from stock market history is that you have a better chance of succeeding by maintaining a long-term approach. Over time, the stock market bounces back from bear markets, and it's advisable to not buy or sell stock just because the market is bullish or bearish. Being informed and methodical will serve you better than selling stocks in a panic or trying to jump on a bandwagon. ●

Turning Up The HEET For Education

Are you looking to help finance the cost of your grandchildren's college education or medical expenses? There are many possible ways to go about that, including contributing to a Section 529 college savings plan for them or simply paying their health costs. But one increasingly popular method is to use a health and education exclusion trust, commonly known as a HEET (pronounced "heat").

What makes HEETs so hot in estate planning circles these days? If properly structured, a HEET avoids the pitfalls of estate and gift tax and the generation-skipping tax (GST) that may hinder other approaches. And its benefits can help future generations of your family.

Normally, gifts during your lifetime are shielded from gift tax by an annual gift tax exclusion ($14,000 in 2015), with any excess covered by a unified estate and gift tax exemption ($5.43 million in 2015). The exclusion and exemption amounts are indexed annually for inflation (although the gift tax exclusion is the same as it was in 2014). But if you use part of that exemption for gifts while you're alive, there will be less available to shelter assets from estate tax when you die. In addition, gifts that "skip" a generation—for example, gifts that go directly from a grandparent to a grandchild—are generally subject to the GST tax. There's a GST exemption to shelter such transfers for lifetime gifts and bequests that skip a generation.

A HEET is designed to sidestep all of that. It is based on a special provision of the tax law that says that gifts made directly to an educational institution or a health care provider don't count as gifts for tax purposes. In other words, these gifts are tax-free above and beyond the usual exclusion and exemption amounts.

The key is that the transfers from

How To REALLY Get Ready For Your Retirement

According to the U.S. Census Bureau, about 77 million “ baby boomers”—people born between 1946 and 1964—were alive when the first wave of boomers turned age 65 in 2011. Now, more than 10,000 baby boomers celebrate their 65th birthdays every day, and by 2030 those who are 65 and older will represent an estimated 20% of the entire U.S. population.

If you’re part of this demographic surge, it’s essential to plan ahead for your pending retirement, which is likely to last much longer than those of previous generations. Someone who’s 65 now can expect to live to 84.3, on average, according to the National Center for Health Statistics. So you easily could live for 20 years or longer after you retire.

How can you prepare financially for what’s ahead? While there are no guarantees, these three ideas can be sound strategies for the future:

1. Slide into retirement gradually. Retirement doesn’t have to be like a bandage that you rip off quickly. Staying on the job longer has obvious financial advantages. If you’re still earning a paycheck, you probably won’t need to take early Social Security benefits or distributions from your retirement plans or IRAs, and waiting longer to begin your withdrawals will mean bigger payouts. But a gradual transition to retirement also may help in other ways. Many people simply aren’t able to cope with such a drastic lifestyle change in one fell swoop.

If you’ve been an executive, or you’re a business owner or partner, you may be able to stop working full time but continue as a consultant. That can help your company, too, and you may retain some valuable fringe benefits. In addition, when you work part time, you can continue to contribute to retirement plans and IRAs.

2. Time your Social Security benefits. Deciding to keep working at least part time can affect when you file to begin receiving Social Security retiree benefits. You can start as early as age 62, but the monthly amount you receive then will be about 25% less than if you’d waited until the normal retirement age for full benefits (age 66 for most baby boomers). If you delay benefits even longer, until age 70, your monthly check will be about 8% more than the monthly amount you would have received at full retirement age.

Deciding when to begin benefits requires an in-depth analysis of your circumstances. Also, keep in mind that you may have to forfeit some Social Security benefits if you’re still working before your full retirement age. Usually, it doesn’t make sense to apply for benefits if you then have to give back part of the monthly payout.

3. Take systematic withdrawals. When it comes time to start taking distributions from the assets you’ve accumulated—and the longer you can postpone this, the better—it’s wise to be systematic about it. One traditional method is to use a 4% solution, withdrawing 4% of your account balances in the first year and then adjusting subsequent distributions based on market performance, inflation, and other factors. Yet there are limitations to that method, and we can work with you to assess your personal situation and create a customized, systematic approach that works for you.

However you proceed, there are a few basic guidelines about when to tap each of your sources of retirement income. It’s normally best to start with taxable accounts, such as stock and mutual fund holdings that aren’t in tax-advantaged retirement accounts. Generally, these distributions will result in long-term capital gains, taxed at a maximum rate of 15% for most investors and 20% if you’re in the top tax bracket for ordinary income. Then you can take money from traditional IRAs and retirement plans such as 401(k)s; that income will be taxed at your ordinary income rates. You’ll likely want to save Roth IRAs for last. Unlike with other retirement accounts, which generally require you to take minimum withdrawals after age 70½, you can leave your money in a Roth as long as you like, and distributions from these accounts generally won’t be taxed.

These three strategies aren’t all you’ll need to consider in positioning yourself for a long retirement. But making a gradual transition into your retirement years, figuring out the best timing for your Social Security benefits, and tapping your assets in a logical order can go a long way toward improving your chances for a successful retirement. ●

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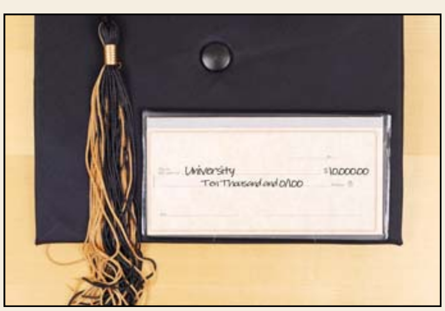
the HEET have to go to a college or a hospital, say, rather than directly to a student or patient. Any distribution made to the beneficiary or to a party other than an educational institution or health care provider will trigger tax consequences.

Once it is funded, a HEET can pay an unlimited amount of qualified educational or medical expenses on behalf of the beneficiary. Under prevailing rules, “qualified education expenses” include tuition paid for a student to attend a primary, secondary, undergraduate, or post-graduate domestic or foreign education program. The beneficiary may be a full- or part-time student. The definition of “qualified medical expenses” is the same as the tax law definition of those expenses for medical deductions.



Once you set up a HEET, it can cover the education and health care expenses of multiple beneficiaries over several generations. Money that isn’t used by one generation will be there for the next one. ●

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Reasons For Roth IRA Conversion

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traditional IRA funds into a Roth, you'll have more flexibility in managing your tax liability in the future. For instance, if you need money, you could decide to withdraw it from a traditional IRA or another taxable account or from a Roth or a combination that suits your needs. Typically, it's advisable to withdraw taxable amounts up to the top of your current tax bracket before drawing money out of the Roth. Yet if you don't want to owe any current taxes, you can withdraw funds from the Roth (as long as you've had the account for that initial five-year period).

6. **Taking advantage of ordering rules for distributions.** Even if you haven't had the Roth for five years and don't yet qualify for completely tax-free distributions, you still can take money out of a Roth without paying tax. Early withdrawals are taxed under special "ordering rules" that treat distributions as coming first from your contributions to the account, then from amounts you converted from a traditional IRA, and finally from taxable earnings. So most or all of your payout may be tax-free anyway. You'll have to pay tax only if you withdraw a portion representing investment earnings in the account.

7. **Protection against tax increases.** If federal income tax rates rise in the future, the tax protection provided by a Roth will become even more valuable, especially if you are able to convert to a Roth in a year in which you are in a relatively low tax bracket.

8. **Estate tax considerations.** Finally, income taxes aren't the only taxes that may be a consideration. Like assets in a traditional IRA, funds in a Roth are included in your taxable estate, but may be protected by the generous federal estate tax exemption ($5.43 million in 2015). In addition, though your heirs will be required to take RMDs from the Roth during their lifetimes, those withdrawals should be income tax-free and thus more valuable than taxable withdrawals from an inherited traditional IRA.

Of course, there are other factors that may apply to your situation. Make an informed decision. ●