FINANCIAL JOURNEYS

FINANCIAL & RETIREMENT PLANNING FOR LIFE

Considering the Roth IRA

To convert, or not to convert – tax is the question

When planning for retirement, it has long been known that taxation is one of many associated mazes. Just like the labyrinth of legend, tax law is constantly changing with time and often seems purpose-built to instill confusion. With uncertainty on the horizon and potential rate increases looming, the question on many recent and future retirees' minds is whether to pay taxes now or pay them later.

The concept of a Roth IRA is nothing new. You pay taxes on income at the time of earning to avoid taxation upon withdrawal. For many, this is a decision that was made early on in their careers and has slowly become more impactful as savings continue to grow.

For those who made the decision to put their retirement savings into a Roth IRA from the start, there isn't too much to consider. Their taxes are paid, and the account balance they see upon withdrawal is what they get, plain and simple. But what about those who elected not to use a Roth IRA for some or all of their retirement savings? Should they consider conversion?

SHOULD YOU CONVERT TO A ROTH IRA?

If you chose not to pay income tax as you earn and are waiting until retirement, you might not have considered changing your mind. For many, this makes sense. Targeting a percentage of your pre-retirement income to live on throughout retirement is a very common strategy, after all. If your retirement income is less than your income while earning, you can pay a lower tax rate. However, that relies on the tax rate of your retirement income remaining lower than the rate you would pay as you're earning. And as any shrewd investor knows, nobody can predict the future.

That's not to say that there are no factors that are well within your control that are useful in making this decision. In fact, most Roth IRA conversions are the result of changes to one's personal financial situation, not a reaction to a potential change in the overall financial landscape.

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Considering the Roth IRA (cont.)

Reasons to convert to a Roth IRA:

You expect your tax bracket to stay the same or go up in retirement. Paying taxes up front when you expect they will be the same or higher when you withdraw can both save money in the long term and provide a clearer picture of your balances upon retirement.

You want to avoid being required to take minimum distributions (RMD). A Roth IRA conversion will eliminate the RMDs associated with a Traditional IRA.

You want to transfer unused tax-free funds to the beneficiaries of your estate. A Roth IRA conversion can be a great estate planning tool if you intend to leave portions of your retirement savings to your beneficiaries since the funds will not be taxed upon distribution.

You want to make your retirement savings more diverse. Having a tax-diverse retirement plan can help to add flexibility to your expense management and allow for more predictable income and cash flow.

You can pay conversion tax without dipping into your savings. Having the ability to pay taxes now on your retirement savings without needing to rely on your savings for that expense can add security and help reduce uncertainty regarding how much tax you may pay later.

Reasons to avoid a Roth IRA conversion:

You need to access the converted funds within five years. When converting to a Roth IRA, there is a five-year waiting period before you can begin to distribute funds without owing an additional 10% tax penalty.

You would be significantly burdened by the conversion taxes. Just because you'll need to pay taxes on your retirement income eventually doesn't mean that now is the best time for you to do it, especially if doing so means depleting other assets that would otherwise serve as a source of income or appreciation.

You are not completely sure about the decision. One of the most important things to consider when contemplating a Roth IRA conversion is that it cannot be undone, so it is crucial to work with your trusted financial advisor and weigh the pros and cons for your own personal situation.

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WHAT WE KNOW ABOUT THE UNKNOWN

Recently, there has been a spike in interest among retirees regarding Roth IRA conversion resulting from rumors, reports, promises and other speculation about the future of taxation on retirement wealth. The reality of the situation is that only you and your financial advisor can determine the right path for your retirement. Make sure that if you do decide on a Roth IRA conversion, it's for the right reasons. Changes in the system are only one factor in your financial situation, your retirement and your choices.

NEXT STEPS

- Get together with your financial advisor and discuss whether a Roth IRA conversion is right for you
- Do some research and gain insight into the future of taxation so you can best decide for yourself if you need to make changes to your retirement plan
- Don't make any hasty decisions that will affect your retirement and remember that any changes to taxation will take time, which you can use to make a stable plan
- Consider the implications a Roth IRA conversion could have on your estate, especially if you intend to leave a significant portion of your retirement savings behind to your beneficiaries

Sources: wellsfargo.com, investopedia.com

The importance of a good paper trail

Living life and facing death can be liberating (and it doesn't have to be difficult)

Ensuring that your family can locate the information they need to carry on your legacy through their own lives is a crucial component of estate planning. Clarity, direction and reassurance are invaluable assets to those facing change, especially while juggling time-sensitive matters with grief.

Your final documents can include recipes, wishes, your eulogy and obituary, but for practical purposes you should prioritize financial and organizational road maps for those who are tasked with settling your affairs.

WHAT TO INCLUDE

Deciding which documents to focus on when preparing your loved ones for their continued journey through life after you've passed depends on your priorities for them. Maintaining a focus on the financial and logistical components of your estate with the largest impact can significantly ease stress and confusion for those handling your estate. Consider these documents and their impact:

> **Financial powers of attorney** give someone permission to make decisions on your behalf – anything from communicating with your cable company to dealing with banking, real estate, business and legal matters.

> **POLST forms** outline physician orders for life-sustaining treatment for those with serious conditions, indicating things like whether you'd like CPR, mechanical ventilation, feeding tubes, ICU treatment or DNR. Because the POLST form is signed by a doctor, it tends to carry more weight than an advance directive.

> **A medical power of attorney** outlines medical treatments you want and those you don't and authorizes a proxy to make decisions for you.

> **Beneficiary forms** for insurance policies, retirement accounts and some other assets prevail over the will. Whoever is named will receive those assets unless the form has been updated.

> **A last will and testament** outlines how you want specific assets to go to specific people but must go through an often-public probate court.

DON'T STOP THERE

The greatest gift you can provide upon your passing is the groundwork for the continuity of the lives of those around you. Make sure that all of your wishes are documented clearly and made readily available. ■

NEXT STEPS

Here are actions you can take now to ensure that important information is both available to your loved ones and enforceable in alignment with your wishes:

- Creating a trust, which transfers assets and personal property in an orderly and more private manner than a will while stipulating special provisions
- Titling, which overrides anything in your will and can help to streamline the probate process
- Creating a password bank, which your financial advisor can assist with, to record digital assets, such as login information for your online accounts, accessible to those you wish to receive them

Sources: vox.com, theatlantic.com, compassionandchoices.org, Centers for Disease Control and Prevention, Health Affairs, nytimes.com, time.com

Never stop earning

How your retirement savings can continue working for you

You've spent many years saving in preparation for retirement. You've planned strategically to get here and have secured the resources necessary to ensure lasting comfort for yourself and your family. Now that you've arrived, there are still decisions to be made regarding how to turn your retirement savings into retirement income. Just because you've begun withdrawing does not mean you must stop earning.

Here are some of the ways you can put your retirement savings to work.

INVEST

This one probably seems rather obvious. However, investing in retirement comes with some pitfalls and caveats that are important to consider. Turning savings and fixed income into variable income requires a special balance that is unique to your situation. Talking with your financial advisor can help you choose between options such as retirement income funds, real estate investment trusts, annuities and more.

RESERVE

Sometimes protecting what you have can be as important as earning. Placing resources in a cash reserve can ensure that you have access to easily withdrawable short-term liquidity. These funds can be shielded from the effects of market declines while still gaining interest through low-risk money markets. Safeguarding immediate funds from volatility can allow your larger retirement savings to recover from changes in the market without restricting cash flow.

WORK

Yes, you read that correctly. Retirement doesn't have to mean the absence of work entirely. Rather, it can be an opportunity to maintain an active lifestyle and pursue passions that you were unable to explore throughout your career. By investing your time in something that you love, you can secure supplemental income and experience things that you may have always yearned for, but did not necessarily have time to enjoy.

NEXT STEPS

Your days of earning are far from over. Keep these tips in mind to maximize your retirement income:

- Work closely with your financial advisor to keep your investment strategies aligned with all of the changes in your life, even if everything is going according to plan
- Don't lose sight of what you need now and ensure that no matter what your strategy is for your savings, you always have access to enough funds available for withdrawal
- Keep track of where your assets are and make sure that you strike a balance between long-term gains and short-term liquidity to prolong the lifespan of your savings and meet your immediate needs
- Remember that you are in good hands and that your advisor is here to make sure you are able to enjoy your retirement without the burden of financial uncertainty

Sources: usbank.com, retirementplans.com, forbes.com