

A Silver Lining to the Recent Stock Market Drubbing: Consider a Roth Conversion!



ARTICLE 08.24.15 DEAN DORTON

As I write, the stock market is extending its slide from last week into this week – generally bad news. However, if you’ve ever considered converting part or all of your regular IRA or 401(k) accounts to a Roth, now would be the time to weigh the pros and cons and, if appropriate, act.

The pros:

- **Earnings within the account are tax-sheltered** (as they are with a regular qualified employer plan or IRA).
- Unlike a regular qualified employer plan or IRA, **withdrawals from a Roth aren’t taxed** if some relatively liberal conditions are satisfied.
- A Roth *IRA* owner **does not have to begin required minimum distributions (RMDs) at age 70 1/2**, as is generally required with regular qualified employer plans or IRAs.
- **Beneficiaries of Roths also enjoy tax-sheltered earnings** (as with a regular qualified employer plan or IRA) **and tax-free withdrawals** (unlike with a regular qualified employer plan or IRA). They do, however, have to begin regular withdrawals after the account owner dies.

The con:

- **You have to pay income tax on the conversion** as if you distributed the account, but you won’t owe the 10% early withdrawal penalty. If the account was funded with pre-tax income as is the case for most 401(k)s and deductible IRAs, the taxable amount will be the amount converted. If you made some non-deductible contributions, you will have basis in the account that will reduce the taxable amount. The rate of tax will depend on your tax brackets and the conversion may be eligible for some exclusions at the state level. A rule of thumb: a Roth conversion won’t make sense if you need to withdraw funds from the account to pay the taxes on the conversion.

If you’d like to weigh a Roth conversion, please contact your Dean Dorton advisor or Leigh McKee at lmckee@deandorton.com.

[View Leigh McKee’s Bio](#)