



HIGHTOWER
Westchester



Is a Roth Conversion Right for You?

As the pandemic wears on, more and more people are concerned with how their finances will be affected long-term, and more specifically, how this will all affect their retirement. One strategy that some investors are taking is converting their traditional independent retirement account (IRA) to a Roth IRA. There are multiple benefits of a Roth conversion, but ultimately, you and your financial advisor should make the final call whether the strategy is right for you and your financial goals.

What is a Roth Conversion?

In its simplest form, an IRA conversion is changing the account classification from a traditional IRA to a Roth IRA. The federal government began allowing this practice in 2010, regardless of the amount of income you earn.

Prior to 2010, if you wanted to invest in a Roth IRA, you could only do so if your modified adjusted gross income fell below a certain limit. In 2020, if you're married and filing jointly and earn more than \$206,000 a year, you can't invest in a Roth IRA. For single individuals and head of household filers, the cutoff is \$139,000. But, the way around this is if you convert from a traditional IRA to a Roth IRA.

WHAT ARE THE BENEFITS OF CONVERTING?

- Lower your taxes in the future because once you pay taxes on the fund going into a Roth IRA, you're done paying taxes, assuming you take a qualified distribution
- You can withdraw your contributions at any time, for any reason, tax-free.
- You won't have to take RMDs on your account when you reach 72 years old. If you don't need the funds, you can leave it alone and pass to your heirs, if you choose.
- Those normally ineligible for a Roth IRA can use the conversion tool to create a tax-free pool of cash.

ARE THERE DRAWBACKS?

With any financial strategy, there are pros and cons. Some disadvantages of a Roth conversion include:

- You pay tax on the conversion when you do it, which in some cases, could be substantial.
- You may not benefit if your tax rate is lower in the future.
- If you do convert, you must wait five years to take tax-free withdrawals, even if you're 59 1/2.

The Roth IRA conversion can be a very powerful tool when it comes to your retirement. Weighing the pros and cons may be pretty straightforward for your situation but getting input from a financial advisor can be extremely helpful for your long-term financial success. Contact us today to set up an introductory phone call.

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