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March, 2010

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An Important Update on the Roth IRA Conversion Question

With the Roth IRA conversion such a popular topic, we want to offer our guidance. While there are benefits to the conversion, we are aware of many circumstances where a conversion would not be a wise move. So be careful before embarking on this strategy. We start first with situations that may suggest a conversion is worthwhile:

1. If investors have a very long investment time horizon (20 years or more before needing any withdrawals), they may benefit from the tax-free growth and tax-free income of retirement assets.
2. If clients are very wealthy and do not need income from their IRA's, the conversion allows them to pass wealth to their beneficiaries, and both parties avoid income tax (as there are no required minimum distributions (RMD's) for ROTH IRA owners and beneficiaries).
3. If investors expect to be in a significantly higher tax bracket when they retire, or if they want to preserve



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expiring tax benefits (e.g., net operating losses and charitable contributions) they may benefit from a conversion.

While in certain circumstances the Roth IRA conversion may be attractive, it may not ultimately make sense for many investors. Some reasons include:

1. The conversion creates an immediate tax liability on the conversion amount. Therefore, significant time and strong rates of return are needed to offset this pre-payment of tax.
2. Investment returns are uncertain - see the last 10 years of investment performance - and we are concerned when we hear about the "automatic" benefits of growing assets tax free. If the markets continue to disappoint, investors will regret the day they prepaid tax to the government.
3. Assets converted into a Roth IRA will incur ordinary income tax in the year the IRA is converted. This may also raise an investor's tax bracket and reduce the benefit of tax exemptions.
4. Tax due on any conversion may reduce liquidity. The funds needed to pay the tax have to come from somewhere.
5. No one knows what every year of their retirement will look like, and there is a chance that an investor's future tax rate may actually be lower.
6. There is no guarantee that the tax code will not change for funds held in a Roth IRA.

While much of the popular press is primarily focusing on the benefits to a conversion, some of the coverage has not delved deeply into the other considerations of an IRA conversion to a ROTH IRA.

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301.279.2221

There are ways to avoid a hefty estate tax bill and have your wealth managed in a manner that is consistent with your belief system. We work closely with prominent attorneys to develop a plan that is customized for you. Call us to arrange a complimentary consultation.

I hope this summary was helpful, and if you have any questions or comments, please call us so we can specifically offer you the custom advice that is the trademark of Potomac Wealth Advisors, LLC.

Feel free to call us at 301.279.2221 if you have questions about how your portfolio is positioned in this challenging environment.

As always thank you for mentioning us to your friends and colleagues.

Sincerely,

Mark

Mark Avallone, CFP, CRPS
Potomac Wealth Advisors, LLC

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