

ROTH CONVERSIONS:

A Financial Planning Trifecta

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Changes in income can happen often during your career. These fluctuations can be stressful but also present an opportunity to improve financially. One main opportunity lies in Roth IRA conversions.

Roth IRA conversions are a transfer of assets from a pre-tax IRA or employer-sponsored retirement plan into a post-tax Roth IRA. When the transfer occurs, ordinary income tax is owed on the portion of the account that was transferred or converted. In years when household income is low or eliminated, a Roth IRA conversion can be completed to take advantage of, or “fill-up,” low income tax brackets.

A financial plan covers many areas of your financial life, beyond how you allocate your investment portfolio. The following list describes how a Roth IRA conversion can potentially improve three main areas of your plan:

- 1. Investment Plan** – When you allocate your investments, it is important to consider asset location. This means placing different types of investment assets, like stocks or bonds, in the appropriate type of account, based on the account’s tax status and the investment’s expected return.¹ A Roth IRA conversion moves more of your investable assets into a post-tax account, providing more flexibility in where you choose to locate your individual investment holdings.
- 2. Tax Plan** – In years where you experience a drop in taxable income, you may find yourself in a lower tax bracket. By completing a Roth IRA conversion during these years, you will be taking advantage of lower tax rates. Taking a tax deduction in high-earning years and realizing taxes in low-earning years can have a positive impact on your long-term financial plan.



Are you turning 70½ in a few years and don't have a need for your future Required Minimum Distributions (RMD)? If so, know that Roth IRAs do not have the same distribution requirements that pre-tax IRAs do. By converting your IRA to a Roth IRA, you can potentially reduce or eliminate any Required Minimum Distributions.²

- 3. Estate/Legacy Plan** – Do you have a non-spouse listed as the beneficiary of your IRA? Will your kids inherit your retirement accounts after you and your spouse pass away? The Setting Every Community Up For Retirement Enhancement Act of 2019 (SECURE Act) is proposed legislation that would eliminate the stretch IRA for non-spouse beneficiaries, or the ability to take income over one’s entire lifetime. The new law would require a 10-year payout period, which could cause the assets to be withdrawn from the account at higher tax rates. If more of your investable assets are in a Roth IRA, the 10-year payout period would have less of an impact on your beneficiary’s taxable income since withdrawals are tax-free. Multi-generational financial planning may be one of the finest gifts you can give your family.³

How to Know Whether You Should Consider a Conversion This Year

The two most common times a Roth IRA conversion makes sense are at retirement or during a career change. When you retire, your taxable earned income may drop significantly or be eliminated altogether. The same can happen when you start a new business or go back to school for an advanced degree. This type of significant income change is the most clear-cut sign of opportunity.

Another time to consider a conversion is when you are in a lower income tax bracket than that of your beneficiaries. If you care about maximizing the tax-adjusted value of your estate, it is important to know how your assets will be taxed when they are passed to the next generation. By paying income taxes on your retirement dollars when you're in a lower tax bracket, you can increase the total amount of wealth you pass on.

We'll Advise You on a Roth IRA Conversion Strategy

Mariner Wealth Advisors can help you evaluate your circumstances to determine whether a Roth IRA conversion, or other financial planning strategy, may be right for you.

¹ "Asset Location: The New Wealth Management Value-Add For Optimal Portfolio Design?" Kitces.com, Mar. 6, 2013. <https://bit.ly/316KDt8>

² "The Pros and Cons of a Roth IRA Conversion" Investopedia, Sep. 24, 2019. <https://bit.ly/2M4Kxhx>

³ "7 Common Questions on the SECURE Act" Ed Slott and Company, LLC, Aug. 12, 2019. <https://bit.ly/2q45mB9>

The views expressed regarding IRA Rollovers are for commentary purposes only and do not take into account any individual personal, financial, or tax considerations. It is not intended to be a solicitation to buy or sell or engage in a particular investment strategy. Before initiating a rollover, please consult with a tax professional.

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