One of our valued clients who recently attended a seminar given by Denise A. Lambert (TIAA-CREF) shared the following information with us:

For tax year 2010, the prior income limitations have been eliminated so that anyone with a traditional IRA, 403(b), or 401(k) plan will now be able to make a ROTH conversion. While the decision to convert to a ROTH account can provide tax savings for some, it may not be a wise move for all.

PROS - Should you convert?

- You are in a lower income tax bracket at time of conversion than you (or your heirs) expect to be at the time of distribution.
- You own traditional IRAs that consist mostly of nondeductible contributions which would most likely reduce the tax consequences at conversion.
- You do not need IRA distributions for support during retirement.
- You want your heirs (who you anticipate will be in a higher tax bracket) to receive the IRA funds.
- You have other funds readily available with which you can pay the tax due at conversion.

CONS – Should you not convert?

- You will retire soon and will need distributions during retirement for support.
- You expect to be in a lower tax bracket during retirement.
- You will retire soon and have no other funds (besides the plan itself) with which to pay the conversion tax.
- A good tax planning strategy has always been: Defer - Defer - Defer.
- There is no guarantee - that at sometime in the future - ROTH distributions will continue to be nontaxable.
- A ROTH conversion can negatively affect several items on your income tax return such as…Social Security benefits, Medicare premium amounts, itemized deductions.

Additional thoughts and considerations:

- If you choose to convert – it is usually best to pay all of the tax in 2010 – rather than spreading it over two years – since several experts expect the tax rates to increase.
- A good strategy may be to diversify and convert only part of your IRA funds.