

Roth IRA Becomes Available To High-End Investors

Great Tool to Defer, Reduce Taxes on Retirement Funds

By Gregory Anderson, CFP®

There has never been a better time for some investors to consider opening a Roth investment retirement account.

Two major developments suddenly factor into the decision to investigate this investment vehicle. First, a modification in federal law now allows individuals with more than a \$100,000 yearly adjusted gross income to have a Roth IRA. Second, the downturn in the economy might provide a window of opportunity to reduce the tax consequences relating to this move that I am about to describe.

The law previously placed strict limitations on the people who could open a Roth IRA, preventing those people from enjoying some of the advantages that a Roth IRA offers in comparison with a traditional IRA. Until Jan. 1, 2010, if an individual wanted to open and contribute to a Roth IRA, he or she had to make less than \$100,000 per year (AGI). Individuals making more than \$120,000 could not contribute to a Roth account; and married couples making more than \$176,000 could not contribute. Other limitations applied.

Today many of those limitations have disappeared. Today, thanks to the change in rules, anybody can open a Roth IRA by converting a traditional IRA. The contributions are still *verboten*, but the change in status (from traditional to Roth) offers several advantages.

In a traditional IRA, the original money invested into the account is untaxed. But all money coming out of that account – including the capital gains – is taxed at the rate that the account holder pays all other income taxes at that time. In a Roth IRA, investors pay the tax on the earned income before it goes into the account, but then withdraws the money (after five years and after age 59 ½) tax-free. That includes the capital gains.

Additionally, and perhaps most importantly for some investors, the Roth IRA gives investors the flexibility of taking distributions at any age over 59 ½, whereas people invested in a traditional IRA must take distributions starting at age 70 ½ -- at the latest. Depending upon an individual's financial status, those taxable distributions at age 70 might not be too attractive.

And that brings us to the second major development that might factor into the attractiveness of a conversion to a Roth IRA account – the recession. When a person converts from a traditional IRA to a Roth IRA, the government treats it like a distribution, meaning the account holder has to pay taxes on that money. (Remember, the distribution from the Roth IRA is tax-free!) So the time to take that tax hit, theoretically, would be when the investments are at their lowest value, thus reducing (or even eliminating) any market gains. The recent downturn in the economy has lowered the

value of many investments in many portfolios, making this the right time in some cases to pay the taxes – rather than 20 years from now when you would expect the investments to increase in value.

Inheritance laws also make the Roth IRA more attractive to some investors in some cases. Consult your financial adviser for all the details.

All risks concerning any particular offering should be reviewed in detail and can be found in the offering memorandum or private placement memorandum. You should consult your tax adviser regarding the benefits and consequences to investing in a Roth IRA. Not all programs are suitable for everyone and customization may be required.

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