A Roth IRA can be a good alternative. Investors fund Roth IRAs with after-tax dollars; as a result, Roth contributions are not tax deductible. When you take money out of a Roth, distributions of both contributions and earnings are tax-free, if qualified. Qualified distributions are those made:

1) five years following the first year in which a contribution was made to a Roth IRA; and

2) to an account owner who is age 59½ or older, or on account of death or disability, or for a first-time home purchase up to the $10,000 lifetime limit.

As you can see, Roth IRAs can be an attractive option for those who anticipate moving to a higher tax bracket as they age.

Roth IRAs have other potential advantages, too.

- You can withdraw direct contributions to a Roth IRA at any time and pay no tax or penalty. (If your withdrawal is not a qualified distribution, you will owe taxes and perhaps an early withdrawal penalty on the earnings.) By contrast, if you make withdrawals from a Traditional IRA before age 59½, you’ll owe taxes and an early-withdrawal penalty.

- You can take up to $10,000 in earnings tax free and without penalty from a Roth IRA, if you use the money to buy a principal residence for a first-time homebuyer who is part of your family: you, your spouse, and your in-line ancestors (such as parents) and descendants (such as children or grandchildren). However, the account

Thinking of converting your Traditional Individual Retirement Account (IRA), 401(k) or other qualified retirement account to a Roth IRA? Now may be a good time to do it.

In the past, your income needed to be under $100,000 to qualify for a Roth IRA conversion. Today, there is no longer an income cap in place, which means that anyone can convert a 401(k) or a Traditional IRA, regardless of income.

Does this mean a Roth IRA conversion is the right fit for you? To make the right decision, it’s important to know how a Roth IRA differs from a Traditional IRA and from other qualified retirement plans.

**Understanding IRAs: Traditional and Roth**

Investors fund Traditional IRAs and 401(k) plans with tax-deferred dollars. They pay no income tax on contributions made during their working years, but pay income taxes on both principal and income when they withdraw money in retirement.

Traditional IRAs and 401(k) plans work best for investors who have more income now than they will in retirement. That’s because they allow you to invest using pre-tax dollars at a time when you may be in a higher tax bracket, and pay taxes later, when you may be in a lower one.

But, what about investors who accumulate more wealth as they get older? If that’s you, you might not be best served by a Traditional IRA. In relying on a Traditional IRA, you could find yourself deducting your IRA contributions now, while you are in a lower tax bracket, only to have to pay higher taxes on these monies later, when you are in a higher tax bracket and must withdraw the funds as an income source.

A Roth IRA conversion — Is it the right fit for you?

(continued)
must be open for a minimum of five years before this withdrawal is made and this withdrawal option is subject to a $10,000 lifetime limit. A Traditional IRA doesn’t offer that option.

- A Traditional IRA requires age-based withdrawals. The owner must begin taking distributions by age 70½. A Roth IRA, on the other hand, has no age-based distribution requirements. Fund a Roth IRA now and, if you never need the money, you may be able to leave it, tax free, to your heirs.

- A Roth IRA may help reduce estate taxes, because the money in a Roth IRA has already been taxed. A Traditional IRA, by contrast, is valued at the pre-tax level for estate purposes—a less advantageous tax treatment for many estates.

Food for thought before you convert
What should you keep in mind when deciding whether or not a Roth IRA makes sense for you? Consider the following.

- You will owe taxes on the amount you convert. In exchange for future tax benefits, you’ll be required to pay income taxes on the amount of Traditional IRA or 401(k) assets converted. If you have a balance of $50,000 in a Traditional IRA, for example, and you want to convert those funds to a Roth IRA, you would owe $14,000, assuming you’re in the 28 percent tax bracket.

- You can maximize the benefits of a Roth IRA conversion if you use money outside your IRA to pay the conversion taxes. Doing so will keep your retirement funds intact for your future needs. Also, if you’re under age 59½, any money you take from your IRA to pay taxes is considered a distribution and may be subject to a 10 percent IRA penalty.

- A partial conversion can help ease your tax burden. If you don’t have enough money outside your IRA to pay taxes on the conversion, or if doing so would push you into a higher tax bracket, you can always consider converting just part of your assets.

- Convert only the money you won’t need for at least five years. Generally speaking, you are permitted to take withdrawals from a Roth IRA without taxes and/or penalties if you are at least age 59½ and you’ve held your account for at least five years.

Today, a Roth IRA conversion is more accessible than ever. To help determine if converting from a Traditional IRA to a Roth IRA may be the right fit for you, go to mybmoretirement.com and access the convenient Roth IRA Conversion Calculator.

For further information on retirement planning
We invite you to visit mybmoretirement.com or call the My BMO Retirement Line at 1-800-858-3829.