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ROTH IRA CONVERSIONS

THE NEW NORMAL FOR TODAY'S FINANCIAL PLANNING

How Roth IRA's have taken center stage in wealth creation for middle to upper class Americans and why the financial industry largely ignores the most critical phase of your financial life.

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With retirement around the corner, a married couple visits a financial advisor for the very first time.

The husband explains to the advisor, "We've saved $750,000 for retirement." Upon reviewing their statements, the advisor politely remarks, "You only have $500,000 here." The couple laughs at the advisor's attempt at humor. But they soon realize he is not joking as he explains their nest egg has never been taxed. As they withdraw their $750,000, Uncle Sam will kindly take $250,000 in taxes.

Next, the wife proclaims, "Well, we're never going to need most of this money; it will just go to our kids." The advisor smiles and replies, "It might be true ma'am that you will never need this money, but the IRS does need your money. This is why they will force you to take taxable distributions whether you need them or not. Furthermore, the IRS will also tax whatever you leave behind to your children."

Like many Americans, you're probably in a very similar situation. Making matters worse is a seismic shift that has quietly occurred over the last two years, drastically altering retirement outcomes for the foreseeable future. The direction of our county's fiscal and policy actions has silently created a ticking time bomb underneath the feet of those who are retired or soon to be retired. And nobody is talking about it.

At the epicenter of the solution to this recent confluence of factors is the Roth IRA conversion. Unlike traditional IRAs and 401ks, qualified withdrawals from Roth IRAs are generally ***tax free for you and your beneficiaries!*** Roths have become the biggest potential savings opportunity of a generation of retirement savers. So why isn't anyone talking about it?

Downhill Planning: The most critical aspect of financial planning, and why it gets overlooked

Getting to retirement is like climbing a mountain. You drudge forward, paycheck after paycheck, and finally one day you realize you have made it to the top; you are ready to retire. We perceive this climb up the mountain towards retirement as a lifelong struggle. But once we get to the proverbial top, we can breathe a sigh of relief and coast downhill, right?

Wrong! The fact of the matter is this… **getting to retirement is the easy part!** All you do is save 10% of your paycheck for 40 years. That's it. It is not rocket science. Savers retire, non-savers don't. Full Stop! Ask any retiree to list the 10 most-difficult things they have gone through in their life. Saving for retirement does not make the list. **The critical aspects of financial planning occur AFTER retirement and this is where most failed financial plans die.**

I coined the concept of "downhill Planning" years ago. It is the art of strategic financial decision making during the retirement years to maximize multiple-generational wealth, reduce taxes, and avoid running out of money.


“GETTING TO RETIREMENT
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Downhill Planning Retirement Concepts

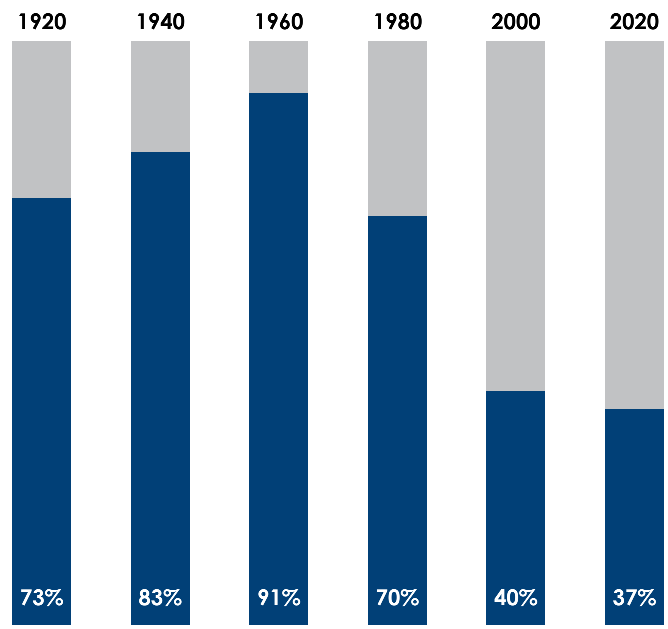
- Strategies to fall into the lowest tax bracket possible during retirement
- Planning with an eye towards minimizing Medicare Part B premiums
- Attempting to reduce or avoid taxable RMDs at age 72
- Looking at multiple factors in attempt to maximize retirement cash flows
- Implementing a Roth conversion strategy to save taxes
- Making decisions now, to save you and your family taxes later

Unfortunately, the financial industry largely ignores downhill planning. If you don't believe me, Google the word "retirement" or "retirement planning" and you will find a multitude of links geared towards one thing… selling you products and services. This is where the industry makes its money. But again, saving money for retirement is not really the hard part. "Gee, Mr. Financial Advisor, thanks for helping me make money. The stock market goes up most of the time anyway… so what did you really do for me except take a fee?" Yes, the decisions made after retirement are often the most important ones. Unfortunately, helping a retiree with the concepts of downhill planning are not very lucrative for financial advisors. The industry has brain-washed Americans into asking the question "Do I have enough to retire?" But savers already have enough. What they really should be asking is "What are the smartest strategies I need to follow during retirement"

Seismic shift has occurred, placing Roth Conversions at the forefront of Retirement Planning

Financial advisors have traditionally recommended Roth conversions to individuals expecting to be in higher tax brackets during retirement. Yet historically, most retirees end up in a lower tax bracket during retirement. Therefore, Roth conversions have not been a popular choice for retirees in the past. But times have changed! Currently enjoying some of the lowest tax rates in history, American's are facing a multitude of factors which all but guarantee rates will soon explode higher!

Historical Highest Marginal U.S. Federal Tax Rates



Taxes Are Headed Up for the Foreseeable Future

Social Security	Reserves Projected to be Depleted by 2035
Medicare	$53 Trillion Underfunded (Cohn)
US Post Office	$161 Billion in Debt (Washington Post)
Pandemic Stimulus	Six Major Bills costing $5.3 Trillion (Peterson Foundation)
Washington Policy	Biden Aims to Raise Top Tax Rates (Kiplinger)
Infrastructure Bill	$2 Trillion Proposed (New York Times)
National Dept	$40 Trillion by 2031 (CBO)

However, rising tax rates are not the biggest concern for savers. The real threat to multi-generational planning quietly came to fruition with the passing of the SECURE Act.

Beginning in 2020, beneficiaries are now forced to completely liquidate inherited retirement funds within 10 years of their parent's death. This is a huge change that in many cases is costing families hundreds of thousands of dollars in additional taxes.

To understand the significance of the SECURE Act, consider Curt. At age 65, he retired with $750,000 in his company's retirement plan. With his modest lifestyle, Curt's pension and social security income covered most of his retirement expenses. Not needing to draw much from his retirement savings, his accounts earned more each year than what he withdrew. By the time Curt passed away in 2020 at the age of 87, he had nearly $1,500,000 in his retirement account. His son Michael, an Engineer earning six-figures inherits Curt's retirement. But now, thanks to the new SECURE Act, Michael's tax situation changes drastically for the worse. Over the next 10 years, he will be forced to cash out $190,000 annually from his dad's inherited retirement. **He is in the top tax bracket and will end up paying Uncle Sam an additional $500,000 in federal taxes over the next decade. Had Curt converted his retirement to a Roth IRA prior to his passing, his son Michael would have inherited dad's retirement money and never paid a dime of taxes on it.**

Enter the Roth Conversion

The general concept of a Roth conversion is simple… pay some taxes now to avoid paying more taxes later. The decision to convert to a Roth requires careful planning and consideration. In most cases, it is a 5 to 10 year plan to systematically transfer qualified retirement assets into a Roth IRA. Be sure to find a financial planner who has experience with conversions and focuses on Downhill Planning concepts. Since the majority of Roth conversion savings are tax-related, finding a planner who is also a CPA can be a huge plus.

Finally, it may be beneficial to review a Roth conversion sooner, rather than later. If taxes do go up in the future, taxpayers converting now while rates are still low will likely benefit. In addition, a conversion makes sense while both spouses are still alive, thereby taking advantage of married tax brackets which are twice the size of single tax brackets. Lastly, since they potentially reduce multi-generational taxes by hundreds of thousands of dollars, the Roth conversion opportunity may not be around forever.

Consider a Roth Conversion if any of the Following Apply…

- You believe tax rates may increase in the future or;
- You've saved more than $500,000 in qualified retirement assets or;
- You are near or in Retirement or;
- You may end up leaving some of your nest egg to your children or;
- You have other sources of retirement income (Social Security, Pension, Farm, etc.)

Roth Contributions and the Back Door Roth

For those who are still in their earning years, there are some additional opportunities to consider. While these three options in no way compare to the power of the aforementioned Roth conversion, they may be a step in the right direction. In recent years, more employers have started offering Roth savings plans or Roth 401(k)s. Be sure to consult with your tax advisor before contributing to these. They will impact your tax situation. At the time of this writing, the maximum Roth 401(k) contribution is between $19,000 to $25,000 depending on your age. For those that do not have a Roth savings option at work, taxpayers may qualify to contribute to a Roth IRA outside of their retirement account at work. At the time of this writing, the maximum Roth IRA contribution is $6,000 to $7,000 depending on your age. Some high earners cannot contribute to a Roth at all. Many taxpayers in this situation have found the Back Door Roth to be a compelling strategy. A backdoor Roth IRA is not an official type of retirement account. Instead, it is an informal name for a complicated but IRS-sanctioned method for high-income taxpayers to fund a Roth, even if their incomes exceed the limits that the IRS allows for regular Roth contributions. Because anyone can contribute to a Traditional IRA, the Back Door strategy entails contributing money to a traditional IRA and then rolling over the funds to a Roth IRA. Keep in mind, a back Door Roth is not a tax dodge. When you convert money from a traditional IRA to a Roth IRA, you owe the taxes on the entire amount transferred in that tax year. For example, if you contribute $3,000 to a traditional IRA and then convert that money to a Roth IRA, you will owe taxes on the $3,000. But with the Roth IRA, you generally will owe no further taxes when you withdraw that money after retiring. As always, seek professional advice before making any decisions about Roth conversions and contributions.

AUTHOR BIO

CHRISTIAN CYR - CPA

A certified public accountant for over 20 years, Christian helps clients understand the best approaches for investing, building wealth, and retiring comfortably. He spent over 15 years in the corporate world as a chief financial officer before becoming a Registered Investment Adviser with expertise in retirement planning.

He is a financial professional who can offer investment and insurance products and services. He has a master's in finance from the University of Illinois Chicago and a bachelor's in finance from Eastern Illinois University.

Christian speaks to audiences nationwide about his passion for investing and retirement and shares the thinking behind his investment strategies. He has been featured on Strategic Investor Radio, the National Association of Active Investment Managers' Shark Tank competition, and other media outlets.

Christian and his wife, Jamie, live in Hennepin with their three children, Joseph, Emma and Benjamin. In his spare time, Christian enjoys golfing, gardening and playing the drums.

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