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Signature Estate & Investment Advisors LLC
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“When and why should I consider a Roth IRA conversion?”

By Jennifer Kim

Before addressing *when* and *why* an investor should consider a Roth IRA conversion, it is important first to understand *how* one qualifies to participate in a Roth and understand recent changes in the law that are good news for high net worth families.

Current guidelines concerning *contributing* to a Roth IRA state that an individual's modified adjusted gross income (MAGI) may not exceed $127,000, and a married couple's combined (MAGI) may not exceed $188,000 to make a full contribution. If these income guidelines are not met, individuals and couples are disqualified from making *any* contributions to a Roth. The maximum *contribution* allowed is $5,500 a year, with an additional $1,000 for anyone over age 50.

Given current and past income restrictions on the Roth IRA since its establishment in 1997, taxpayers in high brackets have simply been excluded from contributing to Roths. They have also been restricted from *converting* their pretax IRAs to a Roth IRA because *conversion* was limited to those taxpayers with MAGI below $100,000.

Now, the good news: In 2010, new legislation permanently repealed the $100,000 MAGI income limitation. With Roth conversions available to individuals of any income level, an unprecedented opportunity opened up for the wealthy. An individual or couple may now convert $100,000 or $1 million or more to a Roth IRA in a given year. What they earn makes no difference. But it is important to remember that this new law only affects the *conversion* limit and not the *contribution* limit.

The main attraction of a Roth IRA, whether created with contributions or conversions, is its tax-free growth. Any income earned by a Roth IRA is tax free. Period. Not only for you, but for your heirs as well, no matter how long they keep the Roth. So, if you convert your IRAs and 401ks to Roths at age 40 and live to be 80, you will enjoy 40 years of Roth income and never pay a dime of taxes.

Other reasons high net worth individuals and families may want to consider converting to a Roth include:

- The long-time horizon until retirement, ideally at least 10–15 years or more, allows the accumulation to build up significantly tax free.
- Conversion assets excluding earnings may be taken out penalty free after five years for any reason.
- Funds will be tax free for a first-time home purchase, with a $10,000 lifetime limit.
- The ability exists to convert larger retirement accounts by rolling them over from 401ks and pensions.
- The ability exists to decrease total estate taxes by prepaying the income taxes now on the conversion, which will thereby decrease the total taxable estate.

While it makes best sense to do a conversion when you have enough funds available outside of the retirement account to pay the taxes, the timing, the “when” of a Roth IRA conversion, can be crucial. The year you do your conversion, whatever amount you convert, you will have to pay taxes on that money *at your current tax rate*. So, if you are currently in a lower tax bracket than when the funds will be used at retirement, it makes sense to convert to a Roth now.

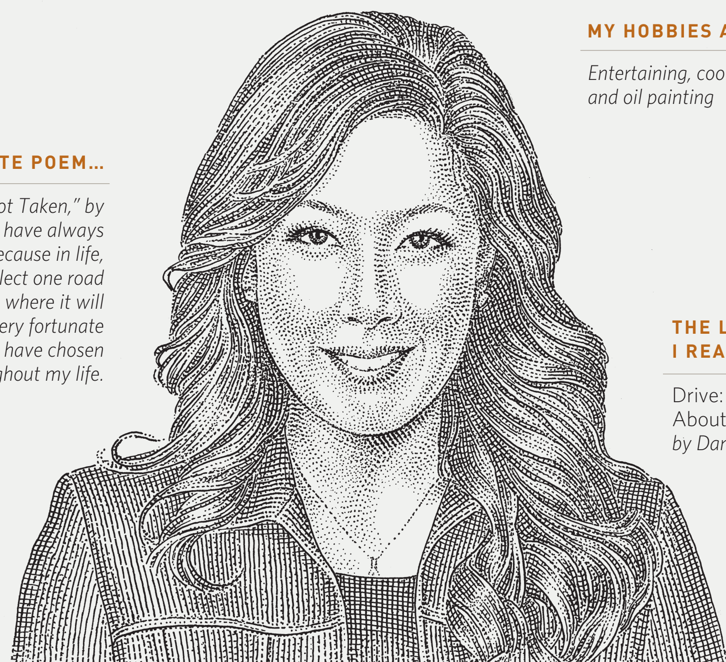
One final note on timing: When the markets hit a slump, the value of your existing IRA and 401(k) accounts tied to market performance also decline. That decline not only reduces the overall worth of your estate, it lowers the amount you are converting and in turn reduces the taxes you pay to do the rollover. In short, when it comes to a Roth IRA conversion, being smart about the “when” can, without question, positively impact the “how much.”

"When it comes to a Roth IRA conversion, being smart about the 'when' can positively impact the 'how much.'"

—Jennifer Kim

How to reach Jennifer Kim

Please call my office at 310.712.2323 to schedule a meeting, either over the telephone or face to face.



MY HOBBIES ARE...

Entertaining, cooking, exercising and oil painting

MY FAVORITE POEM...

"The Road Not Taken," by Robert Frost. I have always loved this poem because in life, you have to select one road without knowing where it will lead, and I feel very fortunate for all the ones I have chosen throughout my life.

THE LAST BOOK I READ WAS...

Drive: The Surprising Truth About What Motivates Us, *by Daniel H. Pink*

About Jennifer Kim

Jennifer Kim is a partner with Signature Estate & Investment Advisors, LLC (SEIA). Mrs. Kim received her bachelor of arts degree in economics from the University of California, Los Angeles (UCLA) in 1992. She has been in the securities and insurance business since 1993, and she specializes in investment and wealth management for affluent individuals and corporations. Mrs. Kim is a certified financial planner (CFP) professional. She completed the chartered financial consultant (ChFC) and chartered life underwriter (CLU) certifications through the American College. Mrs. Kim also completed the Chartered Mutual Fund Counselor (CMFC) Education program. Mrs. Kim lives in the Hancock Park area of Los Angeles with her husband and four children.

Assets Under Management
$240 million (Kim)
$3.2 billion (firm, as of 6/30/13)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
$500,000 (investment services)
$5 million (Private Client Group)

Largest Client Net Worth
Confidential

Financial Services Experience 21 years

Compensation Method
Asset-based, fixed and hourly fees

Primary Custodians for Investor Assets
Charles Schwab & Co. and Fidelity Investments

Professional Services Provided
Investment advisory and money management services, private client wealth management, corporate retirement planning, estate planning, insurance planning and philanthropic planning

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ILLUSTRATION BY NANCY JANUZZI

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