nj.com

The Star-Ledger

Your Money: The lowdown on getting your money after a Roth IRA conversion

Published August 6, 2014
By **Karin Price Mueller/The Star-Ledger**

Q. In 1998 I converted $80,000 in traditional IRAs to Roth IRAs. I'm now 78, and the IRAs are worth $81,000. I know that no tax is due if I redeem it, but how much can I take out at once? Does it depend on my adjusted gross income?
— Ready to redeem

A. Congrats on benefitting from the rebound in stocks in recent years.

The answer to what you can withdraw and when you can do it is simple in your case.
"There is no limit to how much you can withdraw, and your adjusted gross income does not factor into the picture at all," said **Claudia Mott, a certified financial planner with Epona Financial Solutions in Basking Ridge**. "But for others, the withdrawals may not be so simple."

Mott said contributions to a Roth IRA are made with after-tax dollars so you can withdraw the investment at any time with no penalty or income tax. But earnings generated by the account cannot be withdrawn without penalty prior to age 59½ or within five years of making the contribution, she said.
The other difference is required minimum distributions, or RMDs.
"Starting at age 70 ½, owners of regular IRAs, must take required minimum distributions (RMDs) based on the account value at the end of the prior year, while there are no RMDs for Roth IRAs."
Neither kind of account has a limit on how much you withdraw, so you can cash out the whole thing if you want. But if it's a traditional IRA, you will probably have a tax bill coming, so plan accordingly.

We hope you did your conversion the right way, because Jerry Lynch, a certified financial planner with JFL Total Wealth Management in Fairfield, says he thinks 90 percent of conversions are done incorrectly. They are legal, he said, but the strategy is wrong.
He says the tax system is tiered with the first tax bracket being 10 percent, then 15, 25, 33, 35 and the new top rate of 39.6 percent.
"When you pull funds out of a traditional IRA, you first pull out the funds in a 10 percent bracket, then 15 percent and so on," he said. "The purpose is to defer from a higher into a lower tax bracket and traditional IRAs work best for most people."
He says the Roth conversion generally only works if you pay the tax in a lower tax bracket than you would in retirement.

Before you convert, Lynch says you should do some serious thinking.

First, convert only if you will be in a higher tax bracket later. Then convert only within your tax bracket, he says.
"For example, if my income was $50,000, putting me in a 15 percent tax bracket, I would only convert IRA assets up to the maximum of that bracket which is $73,800, or a $23,800 conversion," he said. "Any additional money you convert ends up paying tax in the higher 25 percent tax bracket — not good."
Then he said you should convert only if you know what state you will retire in, noting that converting in New Jersey, which has an income tax does, not make sense if you are planning on moving to Florida, which does not have such a tax.

He says sooner in the year is better than later because you can re-characterize a Roth back into a traditional IRA and get your tax dollars back up to Oct. 15 of the following year.
"Starting early means you have more time to see if this made sense, especially if the market went down," he said.

Email your questions to askbiz@starledger.com