CLA Wealth Advisory Connection — Investment Planning and Roth Conversions

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WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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The charts on Slides 10-13 are provided courtesy of MoneyGuidePro.

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Agenda

- Overview of Individual Retirement Accounts ("IRAs")
- Client examples: should I convert my IRA to a Roth IRA?
- Action items and opportunities to consider

Traditional IRAs: What Are They and Why They Are Useful

- Contribution creates a tax deduction (if qualified)
- Income and growth *tax deferred*
- Taxable income recognized when funds are *withdrawn* from the IRA
- Required minimum distributions ("RMD's) begin at age 72

Traditional IRAs: What's the "Fine Print"?

- Potential tax deduction (if qualified):
  - Under age 50: $6,000 per year
  - Over age 50: $7,000 per year
- You or your spouse must have earned income (i.e. wages or self employment income)
- Eligibility to deduct the contribution depends on income level and whether you or your spouse have access to a company sponsored plan [i.e. 401(k)]

Traditional IRAs: More Fine Print…

- If no company sponsored plan through your employer, no income limits
- If access to company sponsored plan, deduction is phased out when income reaches:
  - Single: $65,000 to $75,000
  - MFJ: $104,000 to $124,000 if you have access to 401(k)
  - MFJ: $196,000 to $206,000 if spouse has access to 401(k)

Traditional IRAs: What if I Can't Deduct the Contribution?

- If income level is too high, a ***non-deductible IRA*** contribution may still be beneficial
- No tax deduction now, but income and growth is still *tax deferred*
- Taxable income recognized when funds are *withdrawn* from the IRA
- Non-deductible contributions reduce the taxable income when funds are withdrawn from the IRA

Roth IRA: How is it Different From a Traditional IRA?

- No tax deduction now
- Tax deferred growth (same as traditional IRAs)
- *Tax free* withdrawals (if certain criteria are met)
- No RMD requirement for account owner
- Great legacy asset to leave to beneficiaries
- Only permitted if income is below certain thresholds:
  - Single or HOH phase out range: $124,000 to $139,000
  - MFJ phase out range: $196,000 to $206,000

Summary of IRA Characteristics

Type of IRA	Traditional	Non-deductible	Roth
Generates a tax deduction?	Yes	No	No
Assets grow tax deferred?	Yes	Yes	Yes
Distributions to account owner are taxable?	Yes	Partially	Usually not taxable
Subject to required minimum distributions at age 72?	Yes	Yes	No
Distributions to non-spouse beneficiaries subject to income tax?	Yes	Partially	Usually not taxable

Roth Conversion Decision Factors – COVID Impact

Decision Factor	COVID Impact	Key Considerations
• **Is your income tax rate lower now than it will be in the future?**	*Generally Positive*	Be sure conversion doesn't put you into a higher tax bracket
• **Can you pay the taxes due upon conversion?**	*Neutral*	More beneficial to pay tax liability with funds outside the IRA
• **Do you have a long time horizon?**	*Neutral to Positive*	5 Year Rule, conversion as a long term tax efficient legacy planning tool
• **Has the value of your IRA declined significantly?**	*Neutral to Positive*	Decline in market value = decline in the cost to convert + increase in tax free growth potential

Conversion Scenario 1 – Long Time Horizon

Age: 40

Conversion Amount: $100,000

Conversion Tax Rate: 24%

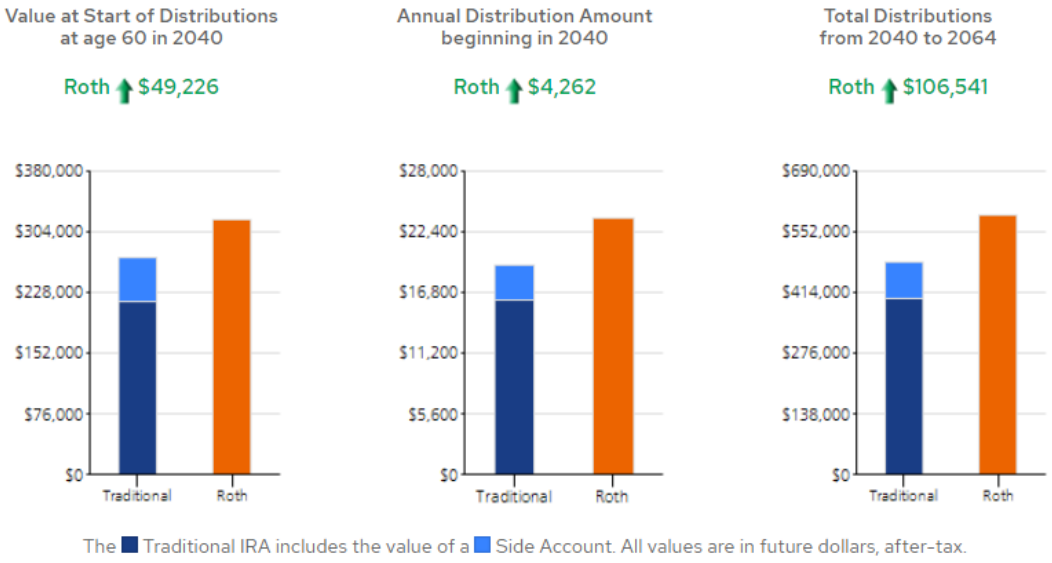
Withdrawal Tax Rate: 32%

Annual Investment Return: 6%

Post Conversion Years Invested in IRA: 20

Distribution Years: 25

Decision: CONVERT



Source: MoneyGuidePro Roth Conversion Calculator

Conversion Scenario 2 – Near Retirement

Age: 60

Conversion Amount: $100,000

Conversion Tax Rate: 32%

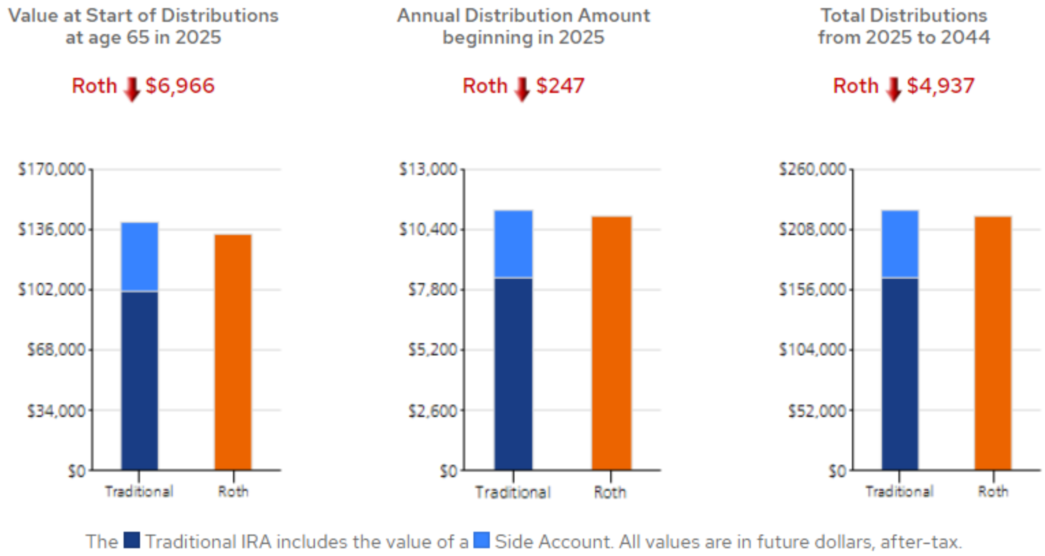
Withdrawal Tax Rate: 24%

Annual Investment Return: 6%

Post Conversion Years Invested in IRA: 5

Distribution Years: 20

Decision: DO NOT CONVERT



Source: MoneyGuidePro Roth Conversion Calculator

Conversion Scenario 3 – Legacy Tool

Age: 70

Conversion Amount: $100,000

Conversion Tax Rate: 24%

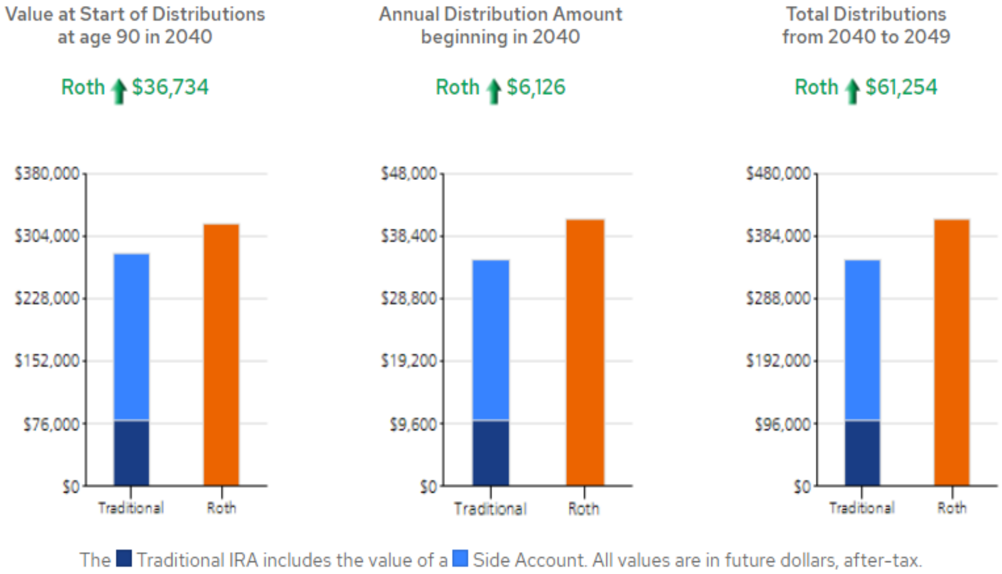
Withdrawal Tax Rate: 24%

Annual Investment Return: 6%

Post Conversion Years Invested in IRA: 20

Distribution Years: 10

Decision: CONVERT



Source: MoneyGuidePro Roth Conversion Calculator

Conversion Scenario 4 – Market Value Decline

Age: 55

Conversion Amount: $100,000

Conversion Tax Rate: 24%

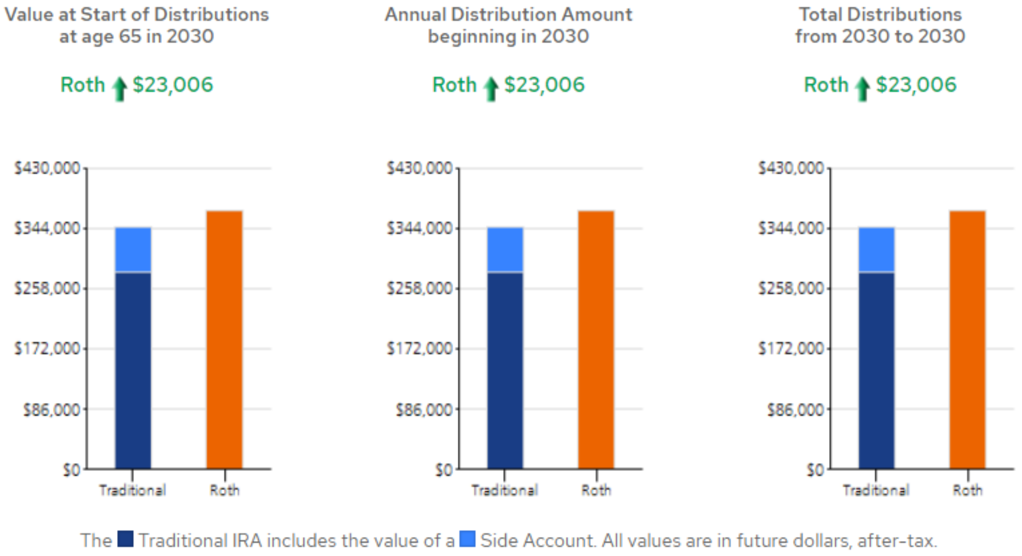
Withdrawal Tax Rate: 24%

Annual Investment Return: 14%

Post Conversion Years Invested in IRA: 10

Distribution Years: 1

Decision: CONVERT



Source: MoneyGuidePro Roth Conversion Calculator

Action Items and Discussion Topics

- SECURE Act and CARES Act created opportunities:
  - No RMD’s required for 2020
  - 2020 RMD can be repaid to qualified accounts by 8/31/20
  - RMD’s pushed back to age 72 beginning in 2020
  - No age limit on ability to make IRA contributions
  - 10% penalty for early IRA distributions? (It depends)
  - Higher threshold for 2020 cash charitable contributions
  - Importance of beneficiary designations

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Thank you!

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