SMITH FINANCIAL GROUP

May 2010

You should have a ROTH IRA!

You may or may not know what a ROTH IRA is, but you definitely should. This is a unique year in the history of this financial instrument, and with the expected changes ahead in earned income tax rates; this may be the very best time to set up a ROTH IRA. How to know? Let's sit down together and review your situation. Here are some things to consider.

A ROTH IRA can help create a source of funds for retirement that already has its tax burden removed. Paying taxes today may make a significant difference in the amount of taxes paid later; especially if tax rates increase significantly. We know tax rates are going up in 2011 and expectations are that they will increase even more over the next few years. Historically, top tax rates have been as high as 70%; versus 39.6% today. So, if taxes are going up, wouldn't you agree it's smarter and cheaper to pay them today at lower rates instead of later at higher rates? If so, we should talk.

There are two things to consider when deciding on a ROTH IRA. The first is whether or not to contribute to a ROTH. You can contribute a total of $5,000 / year to a ROTH ($6,000 / year if you are 50 years old or older). That may not sound like much, but that limit is per person (your spouse can contribute also) and both of you can make contributions for the rest of your lives. These contributions can definitely add up over time. Contributions also take money from a situation where they can grow and be taxed (on earnings) and move them to a situation where growth and interest will never be taxed again.

The second issue is whether or not you should convert your existing, pre-tax funds (401(k), 457, IRA's, etc.) to a ROTH IRA. When you convert these funds directly to a ROTH IRA, you pay the taxes today, removing any future tax burden. You also have the choice to pay the taxes due over the next two years instead of immediately. If you choose to stretch the payments over two years you pay the tax rate that apply in those years. We can evaluate if that strategy will work to your advantage.

So, is a ROTH IRA strategy right for you? It very well could be. Now is the time to evaluate this idea and see how it fits into your overall financial plan. Call today and set up an appointment.

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