

## **ROTH CONVERSIONS – ADVISOR BUSINESS BONANZA IN 2010?**

14 Dec 2009

***Are you ready for one of the biggest years in investment rule-change history? With 2010 only weeks away, the volume on the impending Roth IRA conversion rule-changes is growing by the day.***

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Are you ready for one of the biggest years in investment rule-change history? With 2010 only weeks away, the volume on the impending Roth IRA conversion rule-changes is growing by the day. Major changes to these rules, beginning in 2010, mean that financial advisors have a great opportunity to educate clients and bolster those relationships—and to show non-clients why they should become one.

High-net-worth clients and high wage earners, previously excluded from converting traditional IRA or other retirement assets to a Roth IRA, will be able to do so. Many advisors haven't focused on Roth and don't know much about the impending rule changes or the many reasons a conversion may make sense. Why would they? With high-net-worth individuals unable to fund Roth's if they have modified adjusted gross income (MAGI) of greater than \$100,000, the issue was moot for many advisors' clients.

A provision in the Tax Increase Prevention and Reconciliation Act (TIPRA) of 2005 lifts the current income restriction on Roth IRA conversion eligibility as of Jan. 1, 2010. What's more, this little-publicized change will open the door to a tremendous tax planning opportunity for millions of taxpayers who currently hold well over \$1.4 trillion in tax-deferred IRA and defined contribution plan assets.

For high-net-worth investors there are many reasons to convert. For some, lower asset values mean taxes on conversion will also be lower. Conversion assets come out of a Roth tax-free, and in many cases, penalty-free. Roth investors can be more tax efficient in retirement by devising a withdrawal strategy for discretionary assets that makes the most sense from a marginal tax bracket standpoint. Also, Roth IRA assets are not subject to required minimum distributions (RMDs) at age 70.5 as traditional IRA assets are, allowing more flexibility to pass these on to the next generation.

The Roth 2010 conversion opportunity must not be viewed as an “all or nothing at all” proposition, as many people think and many website “Roth analyzer” tools force you to be. It's instead a balance of several factors—such as future tax rate and life expectancy assumptions, sources for conversion tax payment and others—that must be considered to determine an optimal conversion amount. A proper analysis also shreds another favorite “axiom”—that of never paying taxes early or before you must. With the 2010 changes there are many scenarios in which paying the conversion taxes makes complete sense.

With all of these benefits accruing to high-net-worth investors, advisors must be prepared for an onslaught of client questions and market opportunity. A change this significant, where the public media helps to educate clients about what's happening and how it might impact them in retirement and legacy planning, comes along very rarely. Advisors have a ready-made business building approach if they choose to take advantage of it, as people with a high net worth will be inundated with opportunities to convert. The advisors who get to their own clients and prospects first will be able to position themselves as experts and have the marketing advantage.

How can a financial advisor use this tax law change as a business building opportunity? First and foremost the advisors will need to educate themselves about the change – what it is, how it works, who

can benefit most and why. Once educated about Roth, an advisor can put a plan in place to use this as a way to generate buzz and create a Roth presence. The savvy advisor will use the Roth changes:

- **As a PR opportunity:**

Roth changes happen in 2010, but the press is writing about it now. Be the advisor to take a proactive stance on what's happening and use this knowledge to stand out in a crowded market. This means writing articles for the local media of your target market, being interviewed on the radio and generally creating awareness around Roth changes. Review your client base and find opportunities to speak at clubs, meetings, etc. to share their knowledge of the change and its impact.

- **As a client retention strategy:**

Many advisors hope they have all of the assets for any given client, but suspect there may be more elsewhere the client hasn't disclosed. The Roth discussion offers a built-in reason to inquire about all of the retirement holdings for your client. Meet with existing clients and review their plans, talk about their retirement approach and discuss the impact of different scenarios. This will lead to a deepening relationship and even if no conversion takes place, the dialogue helps build your credibility with the client.

- **To generate client referrals:**

The common wisdom says an advisor can't just ask for referrals, they have to have something to offer to the referral that's valuable. Offering a free review of retirement assets and then providing insights about conversion possibilities is pretty valuable! Use the Roth change to hold a seminar – invite clients and their referrals, friends and family members, and then after educating the group, schedule sit-downs with each attendee to review their retirement portfolio.

- **To strengthen centers of influence (COI) relationships:**

What better way to partner with an accountant or attorney than over an issue that affects all three trusted advisors—tax planning, legacy planning and investment planning? Reach out to other providers and offer to do joint educational session, or individual reviews of clients.

The Roth tax law change presents advisors with a unique opportunity to solidify relationships with existing clients and persuade prospects that they are the “go to” expert to manage their wealth. Smart advisors will seize the day!

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