

The Roth Conversion Frenzy --- An Opportunity for Meaningful Client Contact

Most of what has been written about Roth conversions either details the 2010 conversion rules or categorizes types of clients as good or bad prospects for conversion. Such a technical focus, however, overlooks a hidden opportunity. Because Roth conversions are receiving so much publicity, you can use the topic as a reason for contacting your clients – whether they’re good candidates for conversion AND whether or not they implement a conversion. Here’s why.

If you don’t talk to them, someone else will. All great sales people know that any new investment product or tax law change provides a good reason to call clients and prospects. Remember that your clients are prospects for every other advisor.

Your clients don’t want to be left out. When every financial website and cable news channel is discussing Roth conversions, your clients want to know if a conversion is right for them. This year (2010) is the first time that many people have had the option of investing in a Roth, so there’s pent-up demand. Moreover, there are both economic and psychological reasons why a client might choose to convert qualified assets to a Roth IRA.

Conversion makes economic sense for some clients. If clients’ taxes are likely to be higher in the future, it may be prudent to lock in today’s tax rates by converting traditional qualified assets to a Roth. The conversion is more attractive, from an economic perspective, if the client has the funds to pay some or all of the conversion taxes from sources other than the converted assets, if they have after-tax value in the qualified assets being converted, and if the Roth IRA will grow for 10 to 15 years before distributions begin. Because federal and state tax rates fluctuate, no one knows (with certainty) what future tax rates will be. Some clients may want to hedge their bets on future tax rates by converting some (but not all) of their qualified assets to a Roth.

Conversion makes psychological sense for some clients. Even if the “by-the-numbers” comparison of a Roth conversion isn’t favorable for a Roth, there are some clients who might derive sufficient psychological benefit from the conversion. Because Roth IRAs are not subject to required minimum distributions (RMD), they give clients control over the timing and the amount of disbursements. Also, for clients who like tax-free investments, the Roth IRA provides an easy way for clients to invest in equities and to benefit from tax-free growth. Finally, Roth IRAs can be important in legacy planning because they provide tax-free distributions to the clients’ heirs. It’s a way to provide tax-free income for heirs after the client’s death.

For higher income clients, conversion offers a way to invest in a Roth. For clients who haven’t been eligible for Roth IRA contributions (because their income exceeds the limits), a conversion might be the only opportunity to include a Roth in their investment portfolio. For those clients whose 401(k) includes a Roth option, the conversion provides a way to transfer a substantial lump sum into a

Roth. Higher income clients may have economic or psychological reasons for converting some or all their qualified assets to a Roth.

To evaluate conversion alternatives, you need a full inventory of clients' income and assets. You need to identify all the clients' qualified assets to select possible accounts for conversion. You need to identify all the clients' income sources and all their liquid assets to understand their tax status, and to determine if conversion taxes might be paid from sources other than the converted assets. For your Roth evaluation meeting, your client should bring all their income and investment statements. If you don't manage all your clients' assets, this is an opportunity to be apprised of them.

If a conversion has merit, you get the business. By being proactive, you'll identify opportunities and, potentially, increase the amount of money you invest for the clients.

If a conversion doesn't have merit, you can use the meeting to engage (or re-engage) the client in the planning process. For many clients, a Roth conversion won't make sense – economically, psychologically, or both. Even if that's true, you still have an opportunity to engage your clients in other beneficial conversations. You can use the remainder of the meeting to create, update, or review the clients' Financial Goal Plan. Or, you can use the meeting to help refocus your client on their investment objectives and to assess if any changes are needed. Any conversation that updates you on your clients' current perspectives is useful for your on-going relationship.