

## **Roth Ignorance Clouds Significant Opportunity ...**

By Howard J. Stock --- for "Bank Investment Consultant"  
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At 83%, the majority of individual investors are clueless about the removal of income limits on Roth IRAs next year, according to research by Fidelity Investments released today.

Fidelity's findings are much worse than an earlier study by "Bank Investment Consultant," "Financial Planning" and "On Wall Street," which found that only 42% of those clients knew about the changes affecting Roth IRAs next year.

"I'm not surprised - it's been kind of quiet, not much in the press, which means the changes are below the radar screen for many investors," says Ron Fiske, executive vice president of Fidelity Institutional Wealth Services in Boston.

"Investors' ignorance is understandable - they've had a lot on their plates," adds **Michael Helgesen**, principal of planning firm **Sound Financial Services** in Ridgefield, Conn. "We've all been in such turmoil, and that's probably the reason that number is so high." **Helgesen** adds that, in addition to the wealthy, the Roth changes could benefit advisors' hardest hit clients, "people presently out of work who are now in a much lower tax bracket," because taxes on Roth assets are paid upfront.

That's how Roth IRAs work. Investors place post-tax dollars and create a tax-free income stream when the investor retires. The gamble is that income taxes will be higher in the future, which would make paying taxes on the assets now a smart thing to do.

Traditional IRAs work the other way - investors pay in pretax dollars now and pay income tax on withdrawals when they retire, a strategy that can pay off if an investor requires a smaller annual income in retirement, putting them in a lower tax bracket.

But as of January 1 for the first time, people earning a modified adjusted gross income of over \$100,000 will be able to convert any amount of assets in their traditional IRAs to Roth IRAs. Investors will also be able to spread those upfront tax payments over two years. Only 54% of investors know converting traditional IRA assets to a Roth is an option, according to Fidelity.

"The number of investors affected could easily be significant," Fidelity's Fiske says. "For one year only they'll be eligible to convert existing qualified assets into this structure. Most people who aren't currently using a Roth will have very little comprehension of how Roths work," Fiske says. "The fact that income is tax-free in retirement isn't well known," he says. "The data bear this out."

Fidelity plans to release analytic tools in the next five or six weeks to assist advisors who are helping their clients determine whether they'd be better off under the Roth structure. "Getting people up to speed to act on the opportunity will take a fair amount of sustained effort by advisors," Fiske says.

**Helgesen** advocates that clients' accounts consist of "multiple IRAs for multiple beneficiaries." With Roth IRAs, advisors can aid clients by reducing their expenses in retirement - in which taxes are second only to housing in cost. "When you reduce expense, you reduce retirement risk," he explains.