Who should consider a conversion to a Roth IRA now?

By Liz Weston
NerdWallet

If you've saved a lot for retirement, or your parents have, you could be affected by recent changes in the rules about retirement distributions.

The recently enacted Secure Act eliminated the "stretch IRA," a strategy used by affluent investors to pass tax-advantaged money to their heirs. The stretch IRA allowed nonspouse beneficiaries — typically children and grandchildren — to take money out of an inherited IRA gradually over their lifetimes. The new law requires most IRAs inherited by people other than spouses to be drained within 10 years, which can lead to much higher tax bills for heirs. (Spouses still have the option of treating an inherited IRA as their own and taking money out over their lifetimes.)

At the same time, the Secure Act delayed when required minimum distributions have to begin for most retirement account owners, increasing the age for mandatory distributions from 70-1/2 to 72.

Financial planners say the changes make Roth conversions more attractive for big savers — typically those with $1 million or more in their retirement accounts — who want to reduce future tax bills for themselves or their heirs.

"The percentage of our clients that do Roth conversions is going to increase dramatically this year," predicted certified financial planner Ryan P. Costello of Leawood, Kansas.

How Roth conversions works

A Roth conversion involves transferring money from a traditional IRA or other retirement plan to a Roth IRA. Conversions usually trigger an income tax bill that can be substantial.

Once the money is inside the Roth, though, future withdrawals are tax-free. In addition, there are no required minimum distributions that force owners to take money out at a certain age.

"What this means to the owner is potentially more efficient tax planning in retirement, more time for the account to keep growing and a larger nest egg to pass on," said certified financial planner David W. Mullins of Richlands, Virginia.

Still, it doesn't make a lot of sense to pay a big tax bill now if the money can be accessed at a lower rate later. That's the situation for most people since their tax brackets will drop once they retire and few have saved enough to leave much to their heirs. Another barrier to conversion is that people need to be able to pay the tax bill out of their current income or from nonretirement accounts. (Tapping the IRA money to pay the tax bill changes the math so much that conversions are rarely advisable.)

When conversions can be smart

Conversions can make sense if the IRA owner expects to be in the same or a higher tax bracket in retirement. Good candidates for Roth conversions tend to be diligent young savers who expect their incomes to climb over the years and older people whose tax bills could jump when they start taking required minimum distributions.

Conversions also can be smart if the money is intended for heirs whose tax bracket is likely to be at least as high as the account owner's. A retiree might not want to convert if the money will likely go to young grandchildren or other heirs in lower tax brackets, for example. But if money will be left to an heir in her peak earning years, conversion may be wise, especially now that inherited retirement accounts have to be drained within 10 years.

An ideal time for a Roth conversion can be after retirement but before required minimum distributions begin, financial planners say. Tax brackets often dip during this period, and the conversion can be spread over several years to better manage the tax bill. The higher age for required minimum distributions gives people more time to make these conversions.

Get good advice before converting

Getting advice from a skilled tax professional is essential, however. A too-large conversion can push people into higher tax brackets, cause more of their Social Security benefits to be taxed and increase their Medicare premiums. Certified financial planner Linda P. Erickson of Greensboro, North Carolina, recommends hiring a certified public accountant who can model how various conversion amounts are likely to affect current and future tax bills.

Tax rates can change, of course, as can tax laws. But the advantages of a conversion can be substantial enough to make it a gamble worth taking, said Henry Luong Hoang, a certified financial planner, of Newport Beach, California.

"As a hedge, if you have the ability to pay reasonable tax rates to convert your IRA today, there is a very low chance you will regret future tax-free distributions," Hoang said.

Patrick Ngugi/The Associated Press

In this photo taken Thursday a Samburu boy uses a wooden stick to try to swat a swarm of desert locusts as he herds his camel near the village of Sissia, in Samburu county, Kenya.

Locust outbreak hits Africa

By Elias Meseret and Cara Anna
The Associated Press

ADDIS ABABA, Ethiopia — The most serious outbreak of locusts in 25 years is spreading across East Africa and posing an unprecedented threat to food security in some of the world's most vulnerable countries, authorities reported. Unusual climate conditions are partly to blame.

The locust swarms hang like shimmering dark clouds on the horizon in some places. Roughly the length of a finger, the insects fly together by the millions and are devouring crops and forcing people in some areas to bodily wade through them. Near the Kenyan town of Isiolo on Thursday, one young camel herder swung a stick at them, with little effect. Others tried to shout them away.

An "extremely dangerous increase" in locust swarm activity has been reported in Kenya, the East African regional body reported this week. One swarm measured 60 kilometers (37 miles) long by 40 kilometers (25 miles) wide in the country's northeast, the Intergovernmental Authority on Development said in a statement.

"A typical desert locust swarm can contain up to 150 million locusts per square kilometer," it said. "Swarms migrate with the wind and can cover 100 to 150 kilometers in a day. An average swarm can destroy as much food crops in a day as is sufficient to feed 2,500 people."

The outbreak of desert locusts, considered the most dangerous locust species, also has affected parts of Somalia, Ethiopia, Sudan, Djibouti and Eritrea and IGAD warns that parts of South Sudan and Uganda could be next.

The outbreak is making the region's bad food security situation worse, the United Nations' Food and Agriculture Organization has warned. Hundreds of thousands of acres of crops have been destroyed.

Already millions of people cope with the constant risk of drought or flooding, as well as deadly unrest in Ethiopia, extremist attacks in Somalia and lingering fighting in South Sudan as it emerges from civil war.

The further increase in locust swarms could last until June as favorable breeding conditions continue, IGAD said, helped along by unusually heavy flooding in parts of the region in recent weeks.

Major locust outbreaks can be devastating. A major one between 2003 and 2005 cost more than $500 million to control across 20 countries in northern Africa, the FAO has said, with more than $2.5 billion in harvest losses.

To help prevent and control outbreaks, authorities analyze satellite images, stockpile pesticides and conduct aerial spraying. In Ethiopia, officials said they have deployed four small planes to help fight the invasion.

But one approach backfired in Kenya in recent days when the agriculture minister asked people to post photos on social media of suspected locusts, or "nzige" in Swahili.

A mocking series of images of warthogs, cats, lizards and other beasts followed, with pleas for help in identifying them, and the appeal was ended.

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concern since its coasts were the new species' "first stop" in the Mediterranean. It stressed that Israel could not stop the phenomenon alone but is promoting regulation to protect the most vulnerable marine habitats. With Israel increasingly reliant on the Mediterranean Sea for drinking water, the ministry said protecting the country's marine environment was "now more important than ever."

Lebanese scientists at the American University of Beirut recently wrote that failing to mitigate the ecological risks associated with the expansion of the Suez Canal would place a large part of the Mediterranean ecosystem in jeopardy, an opinion shared by marine scientists across the eastern Mediterranean, from Turkey to Tunisia.

A relatively simple option for damage control seems to be available in the form of the Qatari-funded desalination plants the Egyptians are building along the canal, the first of which is expected to be opened later this year.

If carried out properly, Galil said the brine output of the plants could be funneled into the canal to recreate a "salinity barrier" that could stem the flow of species from south to north. The Great Bitter Lakes, about 45 kilometers (30 miles) north of Suez, once created such an obstacle. But as the canal widened and Egyptian cities and farms flushed agricultural wastewater into the lakes, that bulwark disappeared.

Egypt, which signed a peace accord with Israel in 1979 and recently signed a massive deal with it to import natural gas, has largely rejected the dire warnings of the Israeli scientists as politically motivated.

"Invasive species is a huge and nonspecific category," said Moustafa Fouda, an adviser to Egypt's environment minister. "They can even be productive, replacing species that are overfished, bringing economic benefits or simply adapting to the new environment."

He estimated less than 5% of invaders could be regarded as "disruptive" and most of the shrimp, mollusks, puffer fish and crabs caused no harm. He said even toxic invaders, such as lionfish, were edible if their venomous spines were removed.

Egyptian experts also denied the invasions resulted directly from the Suez expansion. They argue rising water temperatures brought on by global warming and untreated ballast water discharged by cargo ships spurred the exotic arrivals.

"Invasions are a global trend due to pollution and climate change, the natural result of which is every species struggling to survive and searching for its optimal environment," said Tarek Temraz, a marine biology professor at Suez Canal University, and author of the environmental ministry's impact assessment of the canal expansion.

The Suez Canal Authority, the government agency that operates the canal, claimed environmental concerns over its enlargement have been overstated. It said water volume flowing into the Mediterranean increased by 4%, creating "little impact on water flow and plankton movement."

Canal officials stated they are closely monitoring species migration, imposing regulations on ships that unwittingly ferry invasive creatures and curtailing water contamination in hopes of restoring salinity to the lakes.

The canal authority said a recent drive to divert agricultural wastewater away from the Bitter Lakes has successfully raised salinity there by 3% over the past years.