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Coping with and taking advantage of Unemployment

COBRA benefits and ROTH conversions

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In the September issue we discussed taking advantage of last minute retirement funding (*click here for the Article*) and touched upon the different forms of entities, particularly LLCs, which we were to discuss in future issues, and, I promise, we will, but I thought in this month's issue we'd address a more timely and pressing concern, that which has impacted a large number of our fellow Americans, *unemployment*.

For the many hundreds of thousands of employees who in this economic downturn have lost their jobs, there isn't anything more important than to regain employment. Those of us who have been there understand that it is harder to look for work than to have a job. As trying as this period is, we must not be discouraged and must plunge forward to turn negatives into positives.

Some professional associations offer health insurance benefits, which normally cost less than COBRA (Consolidated Omnibus Budget Reconciliation Act – http://www.dol.gov/dol/topic/health-plans/cobra.htm), and you should check into these, if applicable in your field. If COBRA is your only option, don't forget that effective March 1st of this year, the federal government is funding two-thirds the premium cost for those who have lost their jobs. This was part of the Stimulus bill passed by Congress earlier this year.

Now, onto the ROTH opportunities. So you have an IRA or 401(k) and most likely you were asked to roll it over when you lost your job. You're thinking you have a certain amount – whatever that statement reads. Well, think again. In a regular IRA, SIMPLE, SEP, or 401(k) or 403(b), 457(b), etc., these funds have not been taxed, unlike a ROTH. So, if for example, your statement says you have, say, $50,000 in this retirement account, when you start to draw on this (after 59 ½), you will be subject to income tax, whereas in a ROTH, there is no tax. So, $50,000 in a ROTH is much more valuable than $50,000 in an IRA, 401K, SIMPLE, SEP, etc, which after taxes may only net you $32,500 (assuming 30% Fed and 5% State taxes). Up until now to convert from an IRA, establish or fund a ROTH you had to meet certain income limitations. These have been lifted for 2010, which will allow high income earners to establish, fund and convert regular IRA's to ROTHs. As wonderful as this is for high income earners, for those who have lost income due to unemployment an opportunity may exist to convert those 401(k)s, regular IRA's, etc. to ROTHs with little or no tax implications depending on your total income and tax deductions. This may be a one time opportunity, so don't delay, crunch the numbers and see if you can convert to a ROTH, where $50,000 is truly $50,000.

We'll discuss year-end tax planning strategies in our next month's issue and I promise we will get to those LLCs sooner or later. ….   Until next time, dream big, stay safe, and ***always,*** be kind …….
☺

Edwin