Wealth Enhancement®

One of the most common questions we hear from clients is some version of: "Should I be doing a Roth conversion?" It's a fair question and one worth looking into. But the answer is almost always "it depends", and for many clients, it may not move the needle as much as you'd hope.

What is a Roth Conversion?

A Roth conversion means taking money from a traditional IRA (or 401(k)) - where it's never been taxed - and moving it into a Roth IRA, where it grows tax-free and can be withdrawn tax-free in retirement. The catch: you pay income tax on the converted amount in the year you do it. So you're essentially choosing to pay taxes now in exchange for not paying them later.

When It Actually Makes Sense

Roth conversions can be valuable in specific situations. The strongest cases tend to involve those who find themselves in a temporary low-tax window - typically the years between retirement and when Social Security and required minimum distributions (RMDs) kick in.

- Your income is unusually low in a certain year
- You have cash on hand to pay the tax bill, ideally from outside the IRA
- You expect your tax bracket to be significantly higher in future years
- You want to reduce future RMDs, which are mandatory and fully taxable
- You're planning to leave assets to heirs who are in a higher tax bracket
- You have significant time (ideally 10+ years) for the Roth to compound

When It Doesn't Move the Needle

The flipside is that for many of our clients, the math doesn't work out dramatically in favor of converting. Several factors can limit the benefit:

- If you're already in a high bracket, converting pushes more income into even higher rates
- Converting too much can trigger higher Medicare premiums (IRMAA) the following year
- If your estate will go to charity, a traditional IRA may be more tax efficient anyway
- If heirs are in a lower bracket, the math can change significantly

Where Your CPA Fits In

Roth conversions are a tax planning decision first and a financial planning consideration second. The right answer depends on your specific tax situation, projected income, Social Security timing, and estate plans. This is best discussed with your CPA before year-end. We can analyze whether a conversion window exists and assess if a conversion is worthwhile in any given year, or not at all.

The Bottom Line

Like most planning tools, Roth conversions work best when done in the right circumstances and with the right amounts. If you've been wondering whether this might apply to you, please bring it up at your next review. We're happy to take a look together and discuss whether it makes sense for your overall plan.

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