# Roth Conversion

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## What Is a Roth Conversion? A Smart Move for Long-Term Retirement Planning

When planning for retirement, one of the most powerful tools in your financial toolkit is the Roth IRA. Unlike traditional retirement accounts, Roth IRAs offer tax-free growth and tax-free withdrawals in retirement. But if most of your retirement savings are in pre-tax accounts like a Traditional IRA or 401(k), how can you take advantage of a Roth IRA? The answer may lie in a Roth conversion.

Please note that a Roth conversion does not satisfy a Required Minimum Distribution (RMD) . The annual RMD must be taken **prior** to processing any Roth conversion.

### What Is a Roth Conversion?

A Roth conversion is the process of moving money from a Traditional IRA or other pre-tax retirement account into a Roth IRA. The key difference is how the money is taxed:

- Traditional IRA: Contributions are often pre-tax, and you pay taxes when you withdraw the money.
- Roth IRA: Contributions are made with after-tax dollars, and withdrawals in retirement are tax-free.

When you convert traditional retirement funds to a Roth, you pay taxes now on the amount converted, but enjoy tax-free growth and withdrawals later—as long as certain conditions are met.

### Why Consider a Roth Conversion?

A Roth conversion might make sense if:

- You expect your tax rate to be higher in the future. Paying taxes now could save you money later.
- You want to avoid Required Minimum Distributions (RMDs). Roth IRAs are not subject to RMDs during your lifetime, unlike traditional IRAs.
- You want to leave a tax-free inheritance. Beneficiaries of Roth IRAs can receive distributions tax-free.
- Your income is temporarily low. If you're in a lower tax bracket now (e.g., in early retirement or between jobs), a conversion might be more affordable.

### How It Works

1. Choose how much to convert: You can convert all or part of your Traditional IRA.

2. Pay the taxes: The amount converted is added to your taxable income for the year.

3. Move the money: Funds are transferred directly from your Traditional IRA to your Roth IRA.

4. Start the 5-year clock: Withdrawals from converted funds are tax-free only if five years have passed since the conversion, and you're over age 59½.

### Example

Let’s say you convert $50,000 from a Traditional IRA to a Roth IRA in a year where you're in the 22% federal tax bracket. You’ll owe about $11,000 in taxes on that conversion. But now, that $50,000—and any growth on it—can be withdrawn tax-free in retirement.

Things to Watch Out For

- Tax impact: A large conversion can push you into a higher tax bracket. Partial conversions can help spread the tax impact over multiple years.
- Medicare premiums: Conversions increase your income, which may affect your Medicare Part B and D premiums (called IRMAA).
- 5-year rule: Each Roth conversion has its own 5-year clock before earnings can be withdrawn tax-free.

### Is a Roth Conversion Right for You?

The benefits of a Roth conversion are compelling, but it’s not a one-size-fits-all strategy. It depends on your income, age, tax bracket, retirement timeline, and estate planning goals.

We’re here to help you weigh the pros and cons based on your unique financial situation. Let’s talk about whether a Roth conversion could strengthen your long-term retirement plan.

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