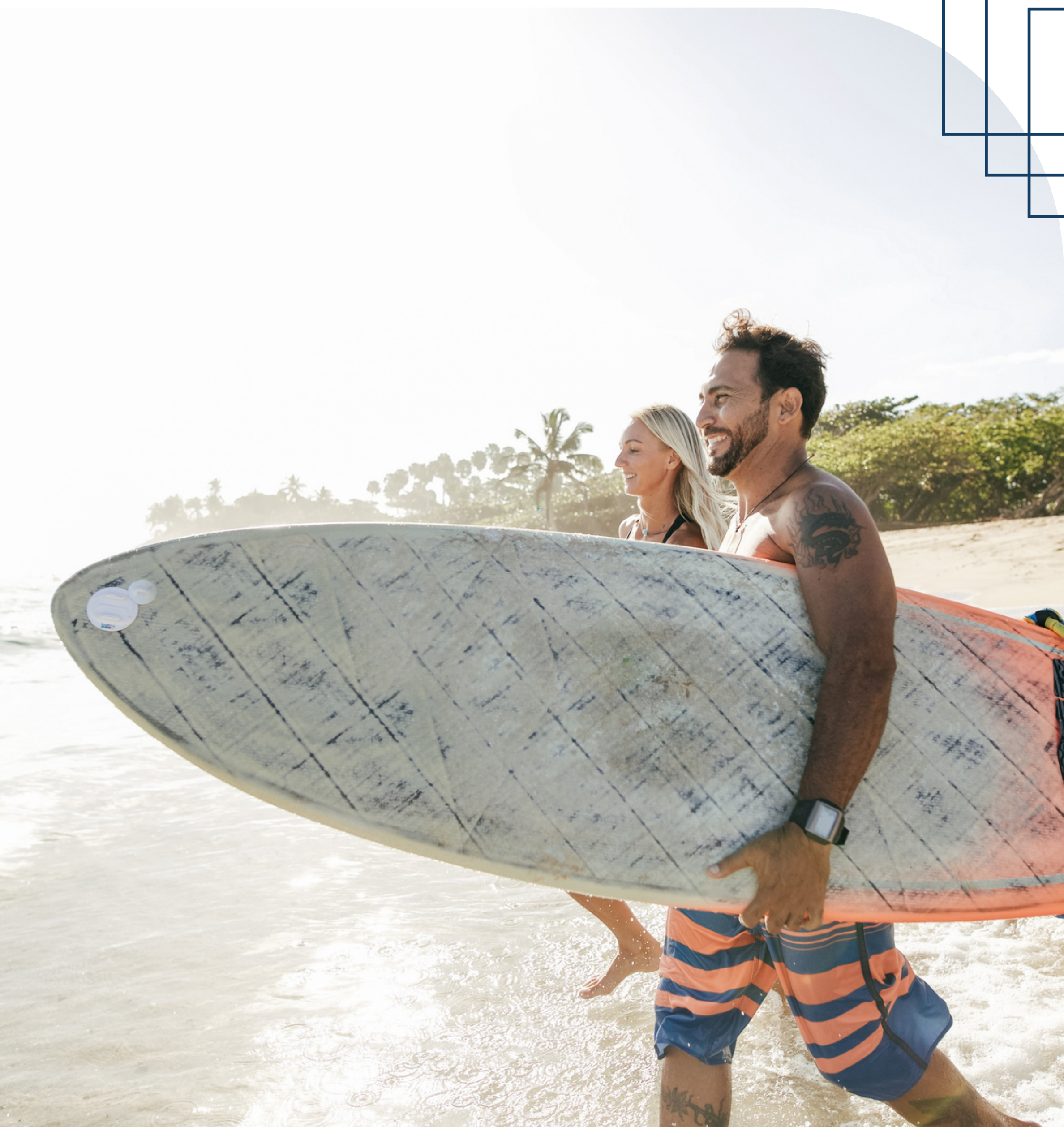
MAXIMIZING TAX-FREE INCOME IN RETIREMENT

Five Things to Know
About Roth Conversions



Creating retirement income that will let you lead the life you want is usually the focus of retirement planning.

But the taxes you will pay on that income are just as important.

It's not really true anymore that taxes will be lower in retirement. While your expenses will change, many people find that they spend just as much, especially during the younger, more active years of retirement.

If you're drawing high levels of income, you'll also be paying commensurately higher taxes. And there are other implications.

Up to 85% of social security is taxable, and Medicare Part B and Part D are both means tested – they carry a surcharge if your income is over certain levels.

If you have a traditional retirement plan, once you hit age 72 you'll have required minimum distributions (RMDs) from your retirement plan start, which means even less control over your income stream.

What's the Solution?

Consider a Roth Conversion.

This guide covers 5 things you need to know.

1. What is a Roth Conversion?

Contributions into Roth accounts are made with post-tax funds. Because taxes are paid upfront, no taxes are due when the funds are withdrawn, and the account can grow tax-free.

Traditional accounts allow you to defer taxes on the funds by contributing with pre-tax dollars. This lowers your taxable income in the years in which you contribute.

When you convert to a Roth account, the taxes on those amounts must be paid.

Unlike investing in a Roth account directly, there are no income restrictions on Roth conversions.

With taxes likely to rise in the future, a Roth conversion is a way to lock in today's tax rates.

Once the conversion is complete, the retiree can enjoy tax-free growth of the account, and tax-free withdrawals.

Traditional Retirement Accounts

- **Pre-tax** contributions
- **Tax-deferred** growth
- **Taxes due** upon withdrawal

Roth Retirement Accounts

- **Post-tax** contributions
- **Tax-free** growth
- **Tax-free withdrawals**

If you are age 59½ or older and the Roth is at least five years old, withdrawals will be tax-free.

2. What About RMDs?

Traditional accounts require a minimum amount to be withdrawn every year, beginning at age 72. The minimum is a function of the balance of the account and the age of the account holder, so it usually increases over time. Because you've already paid the taxes, Roth accounts do not have RMDs. This allows you to have control over your income in any given year.

This can help you keep your income low enough to avoid or minimize taxes on your social security benefits and the IRMAA surcharge on the Part B and Part D Medicare premiums.

* In late 2022, Congress passed legislation that raised the age you have to start taking RMDs from 72 to 73 years old starting in 2023.

NUMBERS TO KNOW

59.5

AGE WHEN YOU CAN BEGIN TAKING PENALTY-FREE WITHDRAWALS

72/73

AGE WHEN RMD'S FOR TRADITIONAL ACCOUNTS BEGIN

3. Maximizing Income Flexibility

A Roth allows you to structure your investments so high-growth assets that have potentially higher tax consequences can be held in a tax-advantageous account.

And since you don't have to take withdrawals, a Roth can maximize the potential for capital growth.

4. Considering the Timing

There is a sweet spot for a Roth conversion. After retirement, but before you begin to claim social security, and before RMDs kick-in, your income is likely to be lower and you may be in a lower tax bracket.

Spreading the Roth conversion out over several years in this time frame can lower your total tax liability.

If you can delay social security, you can also get an 8% annual increase over your full retirement benefit for every year you delay, up to age 70.

If you convert after Medicare begins, you'll need to be careful about how much you convert each year to minimize the IRMAA surcharge.

Roth Conversion "Sweet Spot" Milestones

5. An Estate Planning Tool

Since you've already paid the taxes on a Roth IRA, you are providing your heirs with tax-free funds that don't count against the estate tax exemption.

You must designate a beneficiary, and some non-spouse beneficiaries will have only ten years to withdraw all the assets.

The Key Questions

1. Do you have assets in Traditional 401(k) or IRA accounts?

2. Will RMDs be likely to increase your tax bracket in retirement?

3. Do you desire the flexibility to structure investments to maintain growth potential?

4. Do you wish to simplify your estate planning?

Have questions about how to create a flexible income stream in your retirement?

We’re here to help.

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