



## Should you convert your traditional IRA to a Roth?

### RETIREMENT & LONGEVITY

*Some scenarios point to Yes, others say No.*

If a Roth IRA conversion means tax-free withdrawals in retirement and a more substantial inheritance for your heirs later on, it sounds like a no-brainer. But converting a traditional IRA to a Roth doesn't make sense for everyone.

Roth IRAs are funded with after-tax dollars, and provided that several criteria are met, qualified withdrawals are tax free. If you're converting funds from a traditional IRA to a Roth IRA, you'll have to pay taxes on that income upfront. But it may be worthwhile to have access to tax-free money during retirement.

### Smart move?

Below are a few situations in which a Roth IRA conversion is worth considering:

- **Your tax bracket is expected to be higher in retirement, or your income fluctuates and it's lower this year than it usually is.** It's wise to do a Roth IRA conversion in a year that your income is lowest, to minimize income taxes. The amount you're converting will be added to your gross income for the year and could push you into a higher tax bracket.
- **You live in a state with no income tax but will retire to a state with income tax.** By doing the conversion in your current state, you'll avoid the state income tax on withdrawals of the converted funds.
- **You have most of your assets in tax-deferred accounts.** Once you make the conversion to a Roth IRA, you'll have access to tax-free money in retirement. Diversifying your accounts by tax treatment will allow you to better manage your tax bracket and help optimize tax planning in retirement.
- **You don't need the money from the IRA in your lifetime and want to maximize the estate you leave to your heirs.** Your heirs can eventually access the Roth IRA without tax implications, as long as they follow the guidelines set forth by the IRS.
- **Your taxable income will stay the same, but you expect tax rates to go up in the future.** If you think tax rates will go up in the future, it might be better to pay the tax liability now when rates are lower.

But in these scenarios, you might want to think twice about making a Roth IRA conversion, at least for now:

- **You're nearing retirement and you plan to use your traditional IRA to pay for living expenses.** The advantage of the Roth IRA is that qualified distributions are tax free. If you need IRA funds soon, you can't give those funds a chance to grow and compound and you haven't maximized the growth potential.
- **You're currently receiving or are two years away from receiving Medicare benefits.** A Roth conversion would increase your taxable income and could impact how much you pay for Medicare Part B and D premiums.
- **You don't have cash on hand to pay for the conversion taxes.** If you don't have the cash but want to go through with the conversion anyway by selling assets to pay the taxes, look at assets without taxable gains or those that have a higher cost basis. Best practice is to use funds outside of an IRA to pay for the conversion.
- **You plan to give a substantial amount of your IRA to charity.** A Qualified Charitable Distribution from a traditional IRA to an eligible charity is a non-taxable distribution for the IRA owner. It's a way to fulfill charitable wishes while minimizing taxes. A QCD from a Roth IRA will also fulfill charitable goals, but you are also unnecessarily paying a tax bill beforehand.
- If you receive a discount or tax credit for your health insurance through the Health Exchange, a Roth conversion might eliminate the discount you are eligible to receive for your health insurance.

With so many factors to consider, it's a smart move to have a chat with your advisor before deciding whether to do a Roth IRA conversion. Converting a traditional IRA to a Roth doesn't always make sense, but it can be a powerful move for some in preparation of retirement.

## Next steps

If you're thinking about converting a traditional IRA to a Roth:

- Think about when and how you plan to use the IRA funds.
- Speak to your advisor about your specific situation before initiating a conversion.

If you decide to convert from a traditional to a Roth IRA, there won't be tax on any distributions, however there could be a 10% penalty unless each conversion has a five-year holding period, **or** you meet a 10% penalty exception. E Converting a traditional IRA into a Roth IRA has tax implications. Investors should consult a tax advisor before deciding to make a conversion.

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