

## Should You Do a Roth Conversion?



### **What is a Roth Conversion?**

A Roth conversion involves moving money from a traditional retirement account (like a 401(k) or IRA) to a Roth IRA. When you do this, you'll pay taxes on the amount you convert. However, once the money is in the Roth IRA, it grows tax-free, and qualified withdrawals in retirement are also tax-free.

Roth conversions are especially beneficial if:

- You expect to be in a higher tax bracket in retirement.
- You want to minimize the required minimum distributions (RMDs) from traditional accounts.

### **Why Consider a Roth IRA?**

A Roth IRA offers several advantages:

- **Tax-Free Growth:** Your investments grow tax-free, which can be a big benefit if taxes increase in the future.

- **High-Growth Potential:** Ideal for investing in assets like stocks that may generate significant returns.
- **Tax-Free Withdrawals:** If you meet certain conditions (e.g., age 59½, account held for 5+ years, first-time home purchase), you can withdraw money without paying taxes.
- **No RMDs:** You’re not required to withdraw money during your lifetime.
- **Tax-Free Inheritance:** Your heirs can inherit the account tax-free.

## How do Tax Rates Affect Roth Conversions?

If tax rates are expected to rise, converting funds sooner can save you money. By converting before a tax hike, you lock in today’s lower rate instead of paying more later.

## What to Consider Before Converting

- **Your Current and Future Income:**
  - If your income is steady and you expect tax rates to rise, converting sooner could save you money.
  - If your income is likely to drop in the future (e.g., after retiring or changing jobs), waiting to convert at a lower tax rate might be smarter.
- **Tax Brackets:**
  - Avoid converting so much that you jump into a higher tax bracket. Instead, consider converting just enough to stay within your current bracket.
  - If you expect to be in a much lower tax bracket in the future, waiting might be a better choice.
- **How Much to Convert:**
  - Converting a large amount all at once could push you into a higher tax bracket.
  - Spreading smaller conversions over several years (a “laddered” strategy) might reduce your overall tax bill.
- **Medicare and Healthcare Costs:**
  - Converting increases your taxable income for the year, which might raise your Medicare premiums (IRMAA surcharges). Smaller, spread-out conversions could help you avoid this.
- **State Taxes:**
  - Some states handle Roth conversions differently than the IRS.
    - **States without income tax:** No taxes on conversions.
    - **Special rules:** For example, Iowa allows retirees over 55 to exclude some retirement income from taxes.
  - Be careful—a slight income increase in some states could push you into a higher tax bracket.

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## Key Takeaway



Converting now might be a great opportunity to take advantage of lower tax rates. However, timing depends on your income, health, retirement plans, and where you live.

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## Next Steps

Use our Roth IRA conversion calculator to weigh the pros and cons of converting.

[Try the Roth Conversion Calculator](#)

Consult a financial advisor or tax professional. They can help you:

- Avoid jumping into a higher tax bracket.
- Minimize Medicare surcharges.
- Understand your state's tax rules.

This way, you can make the most of a Roth conversion without unexpected surprises.

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