ARE ROTH CONVERSIONS RIGHT FOR YOU?

What You Need to Know Before You Start

ARNOLD & MOTE

WHY YOUR TAXES WILL LIKELY BE HIGHER IN RETIREMENT

If most of your retirement savings is in tax-deferred accounts, you're not alone. Today's retirees typically have little in Roth savings. Roth accounts have only existed since 1997, and high wage earners want to reduce their taxable income by contributing to pre-tax accounts like traditional IRAs, 401(k)s, and 403(b)s.

What you may not realize are the increasing and long-term tax implications of your pre-tax accounts:

- The IRS requires you to begin withdrawing annually from tax-deferred accounts at age 72. Although these forced withdrawals, called Required Minimum Distributions (RMDs), begin as a small percentage of accounts, the amount increases every year.
- As the balances of your pre-tax accounts grow over time, so will your tax bill. 100% of your withdrawals will be taxed as ordinary income (not capital gains rates).

The ultimate result of account growth and RMDs is that retirees are forced into higher marginal tax brackets over time.

A sound solution for reducing your RMDs and overall taxes is Roth conversions, but when and how much should you convert?

Read on for what to factor into your conversion plan and the benefits of working with experienced professionals.

Let's create your Roth Conversion plan!
www.arnoldmote.com (319) 393-4020

ROTH CONVERSIONS ARE A TRADEOFF BETWEEN PAYING TAXES NOW OR LATER

WHAT TO FACTOR INTO YOUR STRATEGY

Our #1 tip? Build flexibility into your plan.

Roth conversions typically happen over several years, often times between retirement and the start of RMDs and/or Social Security benefits.

Converting over several years not only avoids unnecessarily enormous tax bills; it also gives you flexibility to adjust timing or amounts based on life circumstances.

For example, an early retirement offer can create an ideal, yet unplanned conversion opportunity. So can a costly health event or unplanned expense.

You likely don't need to convert 100% of your pre-tax accounts, but what is the right amount? That depends on several factors that can change over time, including your income, spending, estate plan, and other preferences.

Other Roth Advantages

Besides tax-free growth and withdrawals, Roth accounts also offer these benefits:

- Flexibility to withdraw contributions penalty-free at any age.
- Tax-free withdrawals for account heirs. Spouses and minor children can withdraw tax-free over their lifetimes.
- Reduced or eliminated RMDs lowers taxable income for widowed spouses and prevents them from jumping to higher tax brackets for Single tax filers.

Additional Benefits of Conversions

Reducing your taxable income in retirement may also help you:

- Eliminate or lower costly Medicare premium surcharges (IRMAA)
- Lower your capital gains tax rate
- Avoid the 3.8% Net Investment Income Tax

TAKE THE NEXT STEP

Determining when and how much to convert is best left to experienced, fee-only financial planners.

The Arnold & Mote Wealth Management team will build a flexible plan based on your unique situation and financial goals, our expert analysis, and our powerful financial and tax planning software.

After your plan is created, we'll help you execute it. Then we'll reassess your plan each year and make any necessary adjustments.

Learn more about our approach to Roth conversion and fee-only financial planning.
Schedule your free consultation!

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