

Considering a Roth Conversion?

Here Are 3 Areas to Evaluate



These materials are not intended to provide tax, accounting or investment advice. Be sure to consult a qualified professional in these areas about your individual situation. This entire brochure is © 2025 Stonewood Financial

If you're like many American savers, you may have used a qualified account to save your funds for retirement. Qualified accounts - like 401(k)s and IRAs - are accounts that defer certain tax responsibilities to retirement. You contribute pre-tax dollars into a qualified account and pay taxes on those funds and your earnings when you make withdrawals in retirement.¹

Once you've saved your funds, you have choices about how to manage them going forward. Some savers choose to keep their 401(k)s and IRAs in retirement. Some savers choose to convert all or a portion of those funds into a Roth account, like a Roth IRA or Roth 401(k).¹

Roth accounts are funded with after-tax dollars but then accumulate funds tax-free, and there are generally no taxes due on those funds when they are withdrawn in retirement.²

For savers considering a Roth Conversion, there are several areas you may want to analyze to determine (1) if a conversion makes sense and (2) how to best structure and time that conversion.

Evaluating Your Potential Roth Conversion

Savers who consider a Roth Conversion often want to minimize their tax burden in retirement. They may believe that taxes in the future will be higher than they are today, and therefore, want to take care of their tax responsibility now rather than later.

But the decision to convert can be more complex than it appears. There are three key factors savers may want to evaluate as they consider a Roth Conversion:

1 *Consideration: Your Total Potential Tax Burden*

Question to Consider: Will I likely pay more total taxes if I keep my IRA or if I convert to a Roth account?

There is no way to know the exact amount of taxes you will owe in the future. However, one important consideration is your belief about where your taxes will be in the future. If you believe tax rates or your tax responsibility could be higher in retirement than they are today, a conversion may be appealing.

You may want to analyze your "Total Tax Burden" under two scenarios: keeping your IRA and converting it to a Roth IRA. This kind of analysis takes assumptions you and a financial professional make together and projects the total potential taxes you will owe over the years of your retirement in each scenario.



2 *Consideration: Your Potential Tax Drift During a Conversion*

Question to Consider: Will converting funds move me into a higher tax bracket during my conversion years, and if so, how much more will I pay?

Because funds withdrawn from a qualified account are taxable income in the year they're withdrawn, savers will likely have additional taxable income in the years they convert. If that additional income pushes a saver into a higher tax bracket, the portion of the converted funds in that higher bracket will have a higher tax responsibility.



This is sometimes called “Tax Drift” and can be an important measure to evaluate before converting. Often, a saver may want to weigh any additional taxes paid due to tax drift against the potential modeled tax savings of a Roth conversion. This can give you a more complete picture of the tax implications of your conversion.

3 *Consideration: A Conversion’s Impact on Government Fees and Surcharges*

Question to Consider: Will converting funds impact the government fees I owe each year outside of taxes, and if so, by how much?

Certain government fees could be impacted depending on how you manage your retirement account and the tax status of your savings.

For example, once a saver elects to receive Medicare, they may pay surcharges for their Medicare Part B and Part D premiums. These fees – called the Income-Related Monthly Adjustment Amount, or IRMAA3 – are based on a saver’s modified adjusted gross income (MAGI). The higher the MAGI, the higher the IRMAA amount.



A saver’s MAGI could potentially change based on both the conversion process and the final landing place of their assets. During the conversion years, a saver could find their IRMAA fees are higher if the additional income from the conversion pushes them into a higher IRMAA bracket. Conversely, a saver could find that after the conversion is complete, their IRMAA fees are lower, as funds withdrawn from Roth accounts are not included in the income calculations for IRMAA. Savers may want to evaluate their potential “IRMAA Drift” before deciding whether or not to convert, and before establishing a conversion pattern.

Balancing Taxes, IRMAA, and Bracket Drift During a Conversion

There are typically two decisions a saver needs to make when considering a Roth Conversion:

➤➤ **First, should I convert?** The answer to this question may depend on where you believe your taxes could be in the future versus today.

➤➤ **Second, how should I convert?** Roth Conversions often take place over several years to spread out the impact of taxable income to the saver during conversion. If you decide a Roth Conversion makes sense, the next question is how to convert your funds in a way that potentially minimizes taxes and other government fees.



If you're wondering if a Roth Conversion is right for you, it's important to get educated now.

Below are three questions you may want to discuss with your financial professional:

#1) Based on my needs and today's legislative environment in Washington, are my taxes likely to be lower, the same, or higher in retirement than they are today?

#2) Can you evaluate my potential Total Tax Burden in retirement if I keep my funds in an IRA versus if I convert them to a Roth IRA?

#3) Could I experience Tax Drift and IRMAA Drift if I decide to convert? Can you recommend strategies to minimize these impacts?

Some savers find Roth Conversions help them feel more in control of their taxes in retirement. After all, changes to tax bracket rates don't impact funds in a Roth, as taxes have already been paid on those monies.

But the benefits - and costs - of a Roth conversion can be complex to estimate. If you're considering a Roth Conversion, it's important to evaluate the impact areas covered above. They can help uncover ways to structure your Roth Conversion to potentially minimize the total taxes and government fees you pay throughout your retirement.



DISCLOSURES

This material is not intended to provide tax, legal, or investment advice. Be sure to consult qualified professionals about your individual needs. This material is not endorsed by any government agency or program.

¹ This is not a complete list of features and benefits of a qualified account or Roth account. This material is for informational purposes only and should not be considered investment advice or advice on withdrawing funds from your qualified account. Both qualified accounts and Roth accounts may have requirements, limitations, and features that vary from what is discussed in this material. This hypothetical example does not consider every product or feature of tax-deferred accounts or Roth accounts and is for illustrative purposes only. It should not be deemed a representation of past or future results and is no guarantee of return or future performance.

² In most cases, savers must wait five years after converting funds from a qualified account to a Roth account before making withdrawals. Complete information on Roth Conversions and the associated limitations and requirements can be found on the IRS website at www.irs.gov/publications/p590b.

³ This is not a complete list of features and requirements for IRMAA. Fees can vary based on income and personal situation. Complete information on IRMAA requirements, fee tables and potential adjustments can be found on the Medicare website, available online at www.medicare.gov/basics/costs.