



Roth Conversions

What is a Roth conversion?

A Roth conversion is the process of repositioning your assets in a Traditional IRA or qualified employer sponsored retirement plan (QRP), such as a 401(k), 403(b), or governmental 457(b) to a Roth IRA. When converting your before-tax savings, you get the benefit of tax-free potential growth in a Roth IRA later.

Generally, a Roth IRA conversion makes sense if you:

- Won't need the converted Roth funds for at least five years.
- Expect to be in the same or a higher tax bracket during retirement.
- Can pay the conversion taxes without using the retirement funds themselves.
- May not need the funds for retirement and may want to transfer them to your beneficiaries.

A Roth IRA conversion may not be appropriate if you:

- Are not sure what your tax situation will be like this year because once you convert you cannot recharacterize or "undo" the conversion.
- Must deplete other assets to pay the taxes due on the conversion.
- Are pushed into a higher tax bracket due to the amount you convert.
- Will be in a lower tax bracket in retirement.
- Will be relocating to a state with no or lower state income tax.
- Are wanting to convert your RMD because RMDs cannot be converted. You must first satisfy your RMD and then complete a Roth conversion.

Before converting there are a few things to consider:

- **You cannot recharacterize.** Understand your tax situation and ability to pay for the conversion because a Roth conversion cannot be recharacterized.
- **The availability of funds to pay income taxes.** The benefits of a conversion are increased if the income taxes due can be paid out of non-retirement assets. To help manage your tax liability, you may choose to convert just a portion of your assets. There is no limit to the number of conversions you can do, so you may convert smaller amounts over several years.
- **Your time horizon.** Generally, if you will need the funds within the next five years, a Roth IRA is not a good choice. This is because a five-year waiting period is required if you are under age 59 1/2 before you can distribute the converted amount without owing the 10% additional tax. The longer the assets in the Roth IRA can be left untouched, the greater the benefit of tax-free earnings potentially accumulating.

ROTH Conversion Requirements

Birdseye Financial INC
136 Hillside Dr. E, Burleson, TX 76028
Phone (360) 722-7889 / Fax (425) 412-6865
info@birdseyefinancial.com / www.birdseyefinancial.com



Anyone is eligible to convert regardless of their income or tax filing status.

The Four Types of ROTH Conversions

- **Highest Estate Value** - Focus on leaving you with the most amount of assets at passing.
- **Tax Bracket Limit** - Choose a tax bracket you would like to max out (Bracket Tracker)
- **Lowest Lifetime Tax Liability** - Focuses on reducing the amount you would pay in taxes over your lifetime
- **RMD below your Annual Deduction** - Focuses on reducing your RMD to be under current Tax Deduction levels to eliminate paying additional taxes.

WHAT ACTION SHOULD YOU TAKE?

Take No Action and continue to pay taxes at whatever the current tax rate is at that time

- **Benefit** - Defer paying taxes today because you think taxes are too high
- **Risk** - May pay more in taxes over your lifetime and pass less to beneficiaries

Convert a portion to ROTH and pay the taxes on the pre-taxed funds. Which should lower future **RMD's** (Required Minimum Distributions) below the tax deductions available every year or use the Bracket Limit conversion and eliminate future taxes on that portion of funds.

- **Benefit** - May reduce future RMD's below the level of annual deductions or reduce a portion of future RMDs in order to lower the amount of taxes paid over your lifetime.
- **Risk** - Future tax rates and deductions are unknown

Convert 100% to ROTH and never worry about paying taxes on these funds again.

- **Benefit** - May eliminate RMDs and future taxes on your qualified funds (Pre-tax) by converting to a ROTH (After Tax) and paying the taxes today rather than on the seed and harvest in the future with a tax rate that is unknown but may increase.
- **Risk** - Future tax rates and deductions are unknown

HOW DO YOU FIGURE OUT YOUR BEST SOLUTION?

- Always consult with your CPA (who gives tax advice)
- Request a ROTH Conversion analysis and review your numbers before you consult with a tax advisor.

ROTH CONVERSION SAMPLE

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What does a FULL ROTH Conversion look like?

Keeping a Traditional IRA may cost you more than you realize. Here is a sample report that compares using a Full ROTH Conversion.



Potential Tax Impact

Analysis Assumptions

Current Qualified Account Value	\$500,000
Assumed Tax Liability	25%
Assumed Account Growth Rate	5%

The values below show two scenarios:

1. The total taxes paid if you live to age 90, assuming you continue to keep your tax-deferred account, take Required Minimum Distributions (RMDs)¹ when required, and reinvest these RMDs in a taxable account and the amount your beneficiaries could potentially pay
2. The total taxes paid if you live to age 90, assuming you reallocate your qualified account to a tax-free option today.

Keep Qualified Account		Reallocate to Tax-Free	
Total taxes paid on RMDs at time of withdrawals	\$187,331	Taxes paid on reallocation	\$125,000
Taxes paid on reinvested RMDs	\$86,828	Taxes paid on tax-free account growth	\$0
Taxes paid on remaining account value at death	\$161,373	Taxes paid on remaining tax-free account value at death:	\$0
TOTAL TAXES PAID:	\$435,532	TOTAL TAXES PAID:	\$125,000

These materials are for informational purposes only and are not intended to provide tax, accounting or investment advice. Be sure to consult qualified professionals about your individual situation.
This hypothetical example does not consider every product or feature of tax-deferred accounts, tax-free 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. Your tax bracket may be lower or higher in retirement, unlike this hypothetical example.
¹Required Minimum Distributions are a scheduled amount of money the IRS requires account holders to withdraw from their qualified accounts each year beginning at age 72. RMD calculation data gathered from Stonewood RMD calculation software based on IRS guidelines and tables, and is hypothetical only. Your actual RMDs are determined by a variety of factors.
²Tax-free accounts, like Roth IRAs and 401(k)s, have specific sets of rules and limitations. Please consult a qualified professional about your individual situation. This report is not intended to be a complete discussion of any qualified or tax-free account or approach.

These illustrations are for educational purposes only. Please refer to provided illustrations for complete detail. We provide these examples for you to better understand how the concept works. This information is not to be considered tax advice.