A RETIREMENT INSTITUTE GUIDE

8 Keys to *Roth Conversions*

How to decide when, how, and at what rate you pay taxes — so you, not the IRS, stay in control of your retirement.

WELCOME

Knowledge first.
Always.

The Retirement Institute exists to help Americans approaching and living in retirement make clear, confident, well-informed financial decisions — without the pressure of a sales pitch.

Everything we publish is educational. This guide is the first in our Tax-Free Retirement Series, a growing library of resources built to put real knowledge — and real control — back in your hands.

The eight keys that follow won't tell you exactly what to do. No honest guide could; your situation is your own. Instead, they give you a clear way of *thinking* about one of the most consequential decisions of your retirement: whether, when, and how much of your savings to move into the tax-free column.

Read them slowly. Bring your questions to a qualified professional. And above all, make the decision on purpose.

BEFORE YOU BEGIN

This guide is for general education only. It is not personalized financial, tax, or legal advice, and no advisor-client relationship is created by reading it. Tax laws change, and the right answer depends entirely on your individual circumstances. Please consult a qualified tax or financial professional before acting. (Full disclosures appear at the end.)

INTRODUCTION

Three ways your money can be *taxed*

Every dollar you've saved for retirement lives in one of three "tax buckets." Understanding them is the foundation for everything that follows.

Bucket 01

Taxable

You pay tax as you go — brokerage accounts, savings, CDs. Growth is taxed along the way.

Bucket 02

Tax-Deferred

Traditional IRAs and 401(k)s. We call it *tax-procrastinated*: you delay the bill, but it always comes due, and often with unintended collateral damage.

Bucket 03

Tax-Free

No tax on growth or qualified withdrawals — ever. The smallest bucket, and the most powerful.

> Today, only about **9% of America's retirement wealth** sits in the tax-free bucket. The overwhelming majority is parked in tax-procrastination — headed toward an uncertain future tax environment.

There are really only two retirement vehicles that live in the tax-free column: **Roth accounts** (Roth IRAs and Roth 401(k)s) and a properly structured cash-value life insurance plan, often called a LIRP. Depending on your situation, the right move may be one, the other, or both. This guide stays high-level and focuses on Roth conversions — but the eight keys that follow apply to either path to tax-free.

A **Roth conversion** simply means moving money from the tax-deferred bucket into the tax-free bucket — and paying the tax on it now, on your terms, instead of later, on terms set by a future Congress. The eight keys ahead are the lens we use to evaluate whether, and how much, to convert. Read them not as a checklist, but as a way of thinking.

01

KEY ONE

Think in lifetime taxes — not this year's bill

Most people evaluate a conversion through a narrow lens: "*How much tax will I owe this year?*" That's the micro view.

A far better question is: "*What tax rate will this dollar likely face over the rest of my life — and what other taxes might it trigger along the way if I don't convert it?*" That ripple effect has a name: **collateral damage**. This is the macro view, and it is far more valuable.

This first key is about weighing long-term gain against short-term pain. If you expect your future effective tax rate to be equal to or higher than today's, converting at least a portion often makes long-term sense. Paying a known, fixed rate today can be preferable to facing unknown — and potentially higher — rates later, plus the collateral damage that tax-deferred accounts create and Roth accounts simply do not.

> *Short-term pain can be the price of long-term certainty.*

KEY TWO

02

Short-term friction vs. long-term freedom

A conversion can create real, but temporary, friction. In the year you convert, it may:

- Increase your taxable income
- Trigger IRMAA surcharges if you're on — or near — Medicare
- Increase the taxation of your Social Security benefits

But these are usually time-boxed — a season, not a sentence. In exchange, moving dollars into the tax-free column can offer:

- Potentially tax-free income and withdrawals for life
- No required minimum distributions (RMDs) on Roth IRAs
- Potential relief from IRMAA surcharges
- Potential relief from taxes on Social Security income
- Far greater control over your tax bracket in retirement

> *The question isn't whether friction exists. It's whether short-term friction buys long-term freedom.*

KEY THREE

The fiscal reality of the nation matters

03

Your conversion decision doesn't happen in a vacuum. As a country, we face:

- Massive and growing federal debt — with rising interest on that debt
- An aging population — meaning fewer workers paying taxes
- A shrinking worker-to-retiree ratio — straining Social Security and Medicare
- Expensive entitlement obligations — Social Security, Medicare, and Medicaid

If you truly believe taxes will be meaningfully *lower* in the future, then delaying conversions is perfectly logical. But that belief runs directly against the demographic and fiscal math. It's a bit like staring into the sun and insisting it's dark outside.

> *Taxes don't have to skyrocket for conversions to make sense. They only have to be not lower overall.*

04

KEY FOUR

Control beats hope

A traditional IRA or pre-tax 401(k) gives the government a permanent, silent claim on part of your retirement — a bit like a selfish, me-first business partner who never put in a dime but still expects a cut.

A converted, tax-free account legally divorces the IRS from your retirement. That hands *you* control over:

- When income is taken
- How much is taken
- Whether it raises your Medicare premiums
- Whether it makes your Social Security taxable
- Whether your heirs inherit taxable or tax-free dollars

> *Hope is not a tax strategy. Control is — and controlling what you can control is a cornerstone of financial independence.*

05

KEY FIVE

Watch for conflicts of interest

Many advisors are paid a fee based on the assets they manage for you — the "assets under management," or AUM, model. There is nothing inherently wrong with it. But it can quietly create a conflict when conversions come up.

Here's why. A conversion requires paying tax, and that tax often comes out of the very assets the advisor is managing and billing on. Convert a $1,000,000 IRA and pay the tax, and the managed balance might fall to $800,000. The advisor's billable base just shrank by $200,000 — and few are enthusiastic about that.

This does *not* mean every advisor who discourages conversions is acting in bad faith. Most aren't. But it does mean you should understand the incentive and ask one fair question:

> *"Is this best for my lifetime outcome — or best for preserving assets under management?"*

Good planning is client-centric, not revenue-centric.

KEY SIX

Conversions create "tax capacity" for life

06

Shifting dollars into the tax-free column does far more than save tax once. It reshapes the entire tax profile of your retirement, letting you:

- Reduce or potentially eliminate RMD problems
- Lower lifetime Medicare premiums by potentially avoiding IRMAA
- Potentially reduce Social Security taxation, because Roth withdrawals don't inflate your taxable income
- Make long-term capital gains in taxable brokerage accounts become potentially tax-free
- Free up your standard deduction to help offset normally-taxable income, like remaining IRA or 401(k) withdrawals

That last point is a preview of Key 7: this is not all-or-nothing. Done well, a conversion strategy is about reshaping the tax landscape of your *entire* retirement — the macro lens again, never the micro.

> *This isn't about saving taxes once. It's about reshaping every year that follows.*

KEY SEVEN

07

Partial, strategic conversions beat all-or-nothing thinking

Conversions don't have to be dramatic — and the smartest ones usually aren't. They can be:

- Gradual
- Bracket-managed — filling up a tax bracket without spilling into the next
- Coordinated with timed events and major milestones
- Adjusted year by year

The goal is rarely "convert everything." The goal is to convert *enough* to meaningfully improve your long-term tax position — and to put you, not the IRS, in the driver's seat.

> *Think of it as tax diversification and tax-risk management — not a single, binary decision.*

KEY EIGHT

08

A conversion isn't "going backwards" — it's paying off a known debt

One of the most common emotional reactions to a conversion is: "*I feel like I'm losing ground — I'm paying taxes and my balance is getting smaller.*" Understandable. But misleading. Here's the reality.

If you're in the 22% federal bracket with a $1,000,000 pre-tax IRA, you don't actually own $1,000,000. The government already owns roughly 22% of it. Your true, net value is closer to:

$1,000,000 - $220,000 = $780,000

Think of it like a $1,000,000 home with a $220,000 mortgage. You don't say, "I own a million-dollar house free and clear." You say, "I have $780,000 in equity." Now suppose that, through a measured, bracket-controlled strategy, you pay off the IRS over time:

BEFORE

$1,000,000

Pre-tax account, minus the IRS's silent claim on roughly 22%.

AFTER

$780,000

Tax-free account. No IRS claim. Grows tax-free, no RMDs, and potentially no IRMAA, no Social Security tax drag, and no capital gains.

It feels smaller. But nothing was lost. You simply made a hidden liability visible — and then eliminated it. Same net value today; a radically different future. A conversion isn't about shrinking your wealth. It's about changing its *ownership* — from shared ownership with the government, to exclusive ownership by you and your family.

> *That's not going backwards. That's moving forward with intention.*

THE BOTTOM LINE

It was never really about avoiding taxes.

Roth conversions, done well, absolutely can mitigate taxes across your retirement. But more than that, they're about deciding *when*, *how*, and *at what rate* you pay them.

For many people over 55, the bigger risk isn't paying too much tax this year. It's carrying a large, deferred tax liability — and all its collateral damage — into the most vulnerable and least flexible season of life.

TWO HONEST QUESTIONS WORTH SITTING WITH

— *Are you on a conversion strategy that has never actually been reviewed?*

— *Could you be converting too little — or too much?*

Short-term discomfort can be a small price for decades of tax-free income, flexibility, and control. The keys in this guide are a way of thinking, not a prescription. The next step — turning them into a plan built around your numbers — is a conversation worth having with a qualified professional.

About The Retirement Institute

The Retirement Institute is a non-profit dedicated to financial education for Americans approaching and living in retirement. We publish clear, unbiased guides on the decisions that matter most — taxes, income, healthcare costs, and legacy — so that families can act from knowledge rather than fear. We don't sell products. We teach.

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Tax laws, contribution rules, IRMAA thresholds, and Social Security taxation are subject to change, and the suitability of a Roth conversion, a life-insurance-based strategy, or any other approach depends entirely on your individual circumstances. Roth conversions are generally irreversible and may have significant tax consequences. Before acting on anything in this guide, consult a qualified tax professional, financial advisor, and/or attorney who can review your complete financial picture.

"LIRP" refers to a properly structured cash-value life insurance policy; such policies involve fees, charges, and qualification requirements and are not suitable for everyone. Guarantees are subject to the claims-paying ability of the issuing insurer.