

Abstract: Market volatility might shrink an individual's traditional IRA, but that could be an opportunity. A lower account value means the accountholder can convert to a Roth IRA and pay less tax on the conversion. This short article looks at the timing of a conversion and offers advice on how to stretch out the related tax bill.

Is now a smart time for a Roth IRA conversion?

Market volatility may have shrunk your traditional IRA, but that could be an opportunity. A lower account value means you can convert to a Roth IRA and pay less tax on the conversion.

Traditional vs. Roth IRAs

Traditional IRA contributions may be deductible (depending on income and employer-sponsored retirement plan participation). Funds grow tax-deferred, but withdrawals are taxed. You will owe penalties for early withdrawals and must take required minimum distributions (RMDs) beginning after age 73 (age 75 if you don't turn 73 before Jan. 1, 2033).

Roth IRA contributions aren't deductible, but withdrawals — including earnings — are tax-free if you're at least 59½ and the account has been open for five years. There are no RMDs, and contributions can be withdrawn anytime tax-free. While income limits restrict direct Roth contributions, anyone can convert a traditional IRA to a Roth. But taxes are due on the converted amount.

Why convert now?

A depressed IRA balance means a smaller tax bill on a Roth conversion. Once converted, there will be no taxes on future growth. But consider the following:

- Can you pay the taxes with non-IRA funds? Using retirement funds to pay the tax could undermine the benefits.
- What's your timeline? Conversions usually make sense if you don't plan to tap the funds right away, allowing for long-term, tax-free growth.

You don't need to convert all at once. Spreading conversions over several years can reduce the tax impact and provide flexibility.

Let's talk

A Roth conversion can be a savvy move, but it isn't for everyone. Contact us to explore whether it fits your retirement strategy.