

Roth Conversions

A Smart Tax Move or an Expensive Mistake?



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What Is a Roth Conversion?

A Roth conversion is the process of transferring money from a pre-tax retirement account, such as a traditional IRA or an old 401(k), into a Roth IRA. The tradeoff is straightforward: taxes are paid now in exchange for the potential for future tax-free growth and tax-free qualified withdrawals later in retirement (subject to IRS rules).

Roth conversions sit at the intersection of retirement income planning, tax planning, and long-term flexibility. Does that mean they're effective for every situation? No. For some households, it may reduce future tax friction and create more optionality. For others, it might trigger a significant tax bill at a challenging time.

The real question often comes down to whether it's more beneficial for you to pay taxes now or later.




Some intersections
require a guide.

Why Roth Conversions Get So Much Attention

Many retirees and pre-retirees eventually realize that not all retirement dollars are created equal. Money inside traditional deductible IRAs and pre-tax 401(k)s has never been taxed (aka tax-deferred), which means future withdrawals might create taxable income. Roth dollars, by contrast, may offer a more streamlined source of retirement spending once eligibility requirements are met.

That difference often becomes more significant as retirement nears. A household that has built almost everything inside tax-deferred accounts may look wealthy on paper only to later experience a hefty tax drag when it starts spending from those accounts. That is why multiyear planning across *taxable*, *tax-deferred*, and *Roth* buckets often matters.

This is also why Roth conversions tend to come up in so many planning discussions. They are not just about trickling dollars into a Roth bucket. They are about planning for future income, managing tax brackets, reducing future required distributions, and creating more flexibility for spending later in life.




When everyone's raising their hand, it's worth asking why.

When a Conversion May Make Sense

Roth conversions often become more sensible during lower-income years. A household that retires before Social Security begins, and before required minimum distributions arrive, may have a temporary tax window where taxable income is lower than it will be later. That creates an opportunity to move some money into a Roth while potentially staying within a lower tax bracket.

The same logic may apply after leaving a job, after selling a business in a carefully structured way, or during years when deductions are unusually high. In these windows, the goal is not to convert everything just because a Roth sounds appealing, but to intentionally fill up a tax bracket without spilling over into a much higher one.



The goal isn't to convert everything. It's to fill the right bracket at the right time.

When a Conversion May Backfire

A Roth conversion may become expensive when driven by enthusiasm rather than planning. Converting a large balance in a single year runs the risk of pushing a household or individual into a much higher tax bracket, increasing Medicare-related costs later, or creating avoidable tax friction that requires years to recover from.

In short, the timing matters.

Converting during a year with already-high earned income may open the door to stacking conversion income on top of wages, bonuses, business income, or capital gains—causing what seemed to be a productive strategy in theory to become a painful tax surprise in practice.

There is also an opportunity cost question. The tax bill itself is real money. If taxes are paid from the IRA or pre-tax 401(k) itself, rather than from outside cash accounts like checking or savings, less money remains invested for the future, and the conversion may lose much of its appeal.


A Roth conversion may become expensive when driven by enthusiasm rather than planning.

The Tax Bracket Window

Examining Roth conversions through a tax-bracket lens may help crystallize the decision. Instead of asking, “Should everything be converted?” try asking, “How much room is left in my current bracket before my income jumps to the next tier?”

That framing helps turn Roth conversion planning into a year-by-year exercise rather than a one-time guess. It also fits the broader retirement planning principle that taxes should be evaluated over a lifetime, not just in a single filing season. Making a decision that increases taxes modestly now may still be beneficial if it prevents much larger taxes later, but only when the numbers are modeled carefully, and assumptions hold.

The desired amount to convert typically depends on income, filing status, deductions, future spending needs, Social Security timing, pension income, rental income, and how much money sits in each tax bracket today.




Taxes should be evaluated over a lifetime, not just in a single filing.

Paying the Tax Bill the Right Way

A Roth conversion may be more attractive when the tax bill can be paid from cash or taxable savings outside the pre-tax account. Doing so often preserves more of the converted assets inside the Roth, where future growth may benefit from tax-free treatment if withdrawal rules are met.

Using retirement dollars themselves to cover the tax cost might dilute the strategy. In effect, part of the account is being consumed merely to complete the transaction. For some investors, that may still be workable, but it often weakens the long-term math.

Thoughtful, long-term retirement planning isn't just about net worth. Liquidity planning matters: having the right dollars in the right buckets at the right time so a retirement strategy may better manage potential tax pressures.



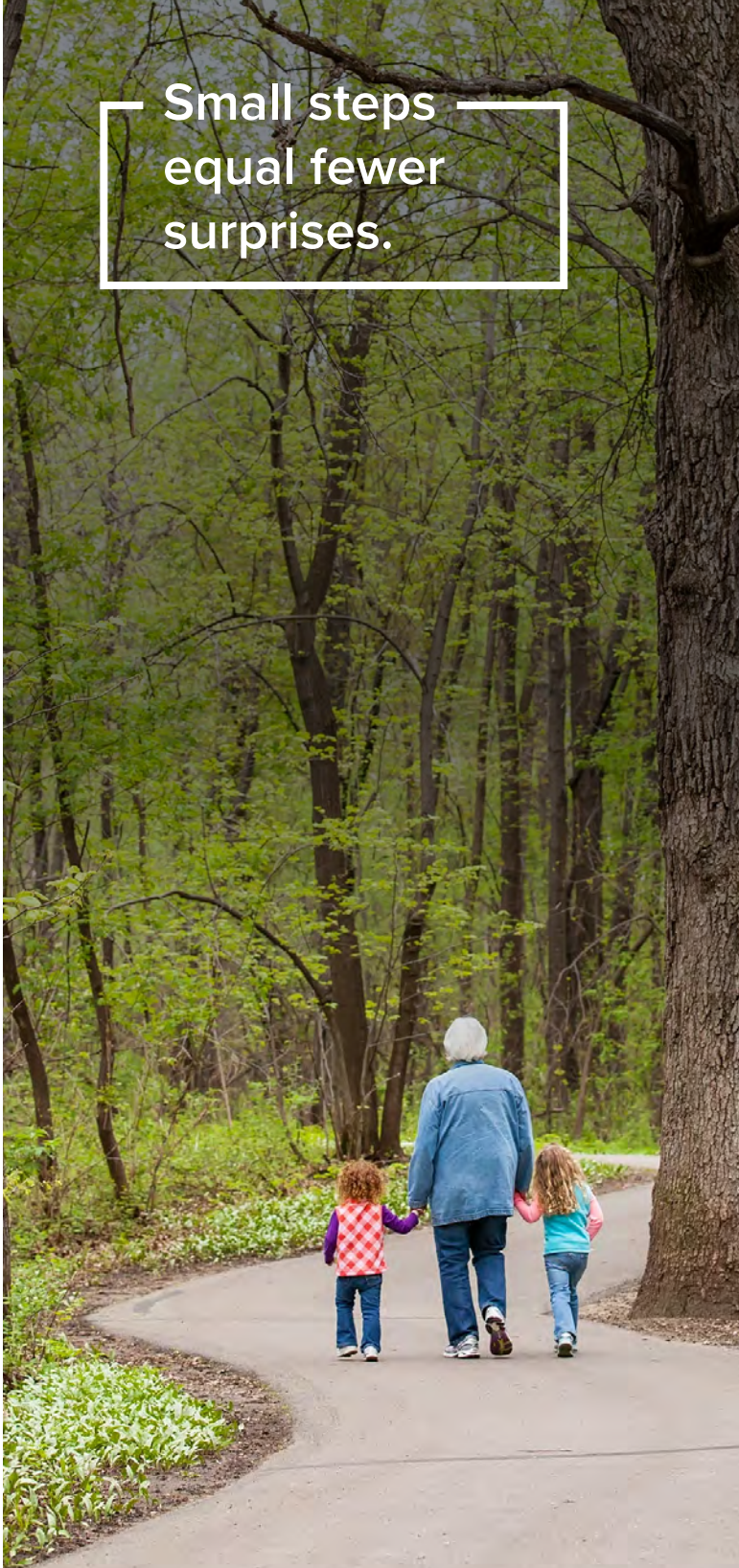
It's not just how much you save.
It's where you save it.

Converting in Stages Instead of All at Once

For many families or individuals, a series of partial Roth conversions may make more sense than one dramatic move. Gradual conversions may allow folks to use several lower-tax years, monitor bracket exposure, and adjust as laws, markets, and personal circumstances change.

This staggered approach may be especially useful for people in the years between work and full retirement income. A household may have a period when earned income is down, Social Security payments have yet to kick in, and required minimum distributions remain years away. That period may offer room for disciplined, measured conversions.

For some, there is also a behavioral advantage to going slowly. Whereas a giant one-time conversion may feel like a tax shock, smaller annual steps are often easier to evaluate, explain, and coordinate with a broader financial plan.



Small steps
equal fewer
surprises.

Roth Conversions and Required Minimum Distributions

Required minimum distributions (RMDs) have the potential to reshape a retirement tax picture later in life. Households that save heavily in deductible IRAs and pre-tax workplace plans may discover that once distributions are required, their taxable income has less flexibility than expected.

This is where Roth conversion planning may become valuable years earlier. By transferring some dollars from pre-tax accounts into Roth accounts before required distributions begin, a retiree may be able to reduce the size of future mandatory withdrawals and preserve more control over taxable income.

This does not mean every retiree should rush to convert. It means RMDs are part of the conversation. A conversion decision made in someone's early 60s may have ripple effects on taxes throughout the rest of retirement.

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Early Retirement and the Gap Years

People who *retire sooner*, before traditional retirement age, often face what some refer to as the gap years: the stretch of time after work income stops but before Social Security and other retirement milestones arrive. In that period, taxable income may sometimes be unusually low, potentially creating a strategic opening for Roth conversions.

That same gap-year planning shows up in many broader retirement-income conversations. Investors who want flexibility before age 59-1/2 are often encouraged to build multiple tax buckets, including taxable brokerage assets, Roth assets, and tax-deferred savings, to avoid overdependence on any one bucket alone.

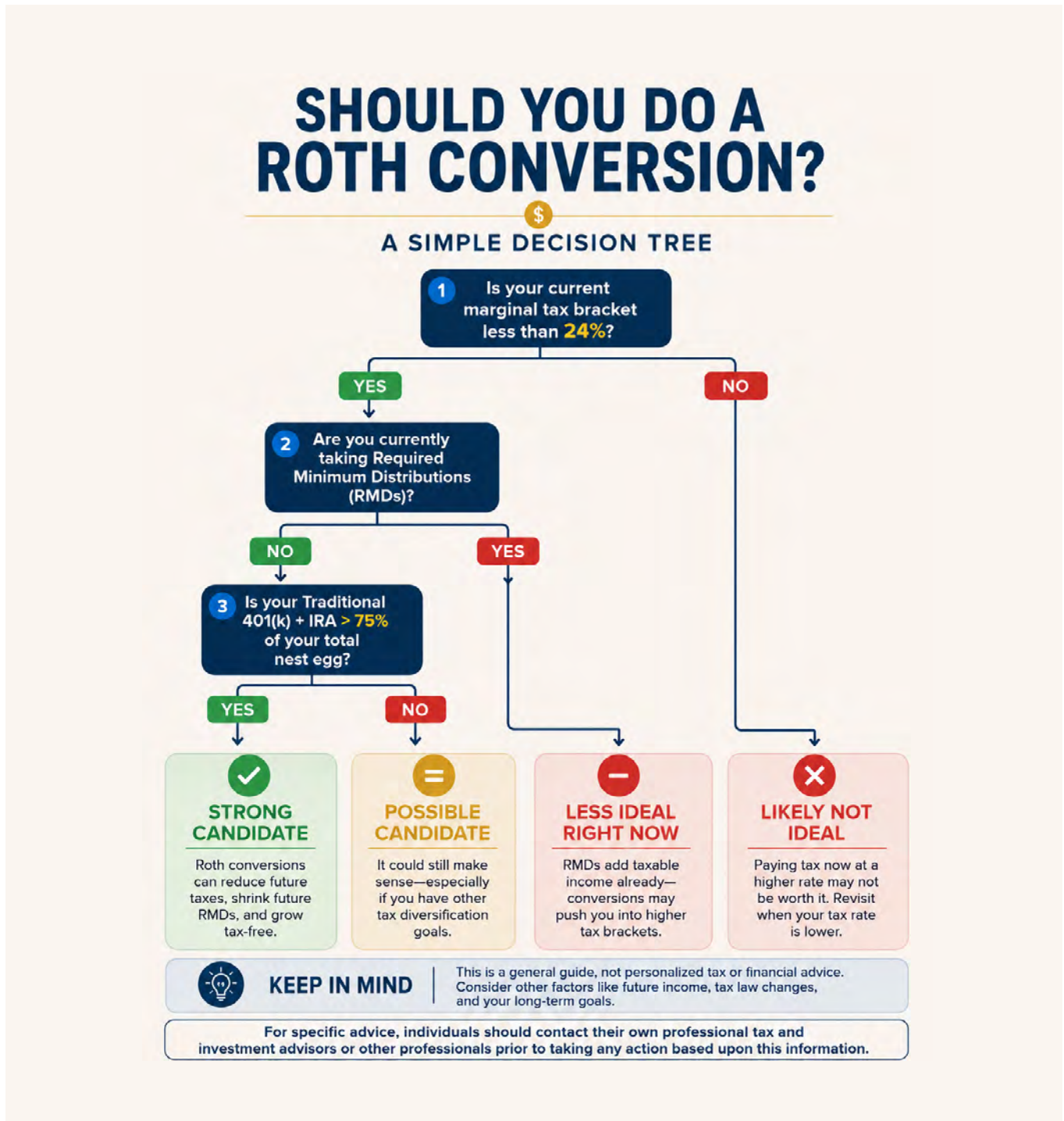
At times, Roth conversions may fit neatly into that framework. In those cases, they may help turn a low-income transition period into a deliberate tax-planning opportunity rather than just a waiting room before the next phase of retirement income begins.

A photograph of an elderly couple walking across a wooden bridge in a lush, green forest. The woman is on the left, wearing a light-colored jacket and pants. The man is on the right, wearing a light-colored jacket and pants. They are both looking towards each other and appear to be in conversation. The bridge has a dark wooden railing. The background is filled with dense trees and foliage, with sunlight filtering through the leaves, creating a warm and natural atmosphere.

Turn a low-income transition period into a deliberate tax-planning opportunity.

Roth Conversion Decision Tree

The decision tree below works well as a quick visual checkpoint by reinforcing a core theme of this guide: Roth conversions are often most compelling when tax rates are relatively manageable, when future required distributions may become a problem, and when a household needs more long-term tax diversification rather than a one-size-fits-all answer.



The Roth Conversion Decision Tree was created by James Lewis, CFP®, Capital Investment Advisors. This graphic should be presented as a planning guide, not as a substitute for analysis. A simple framework can help readers identify whether they may be a strong candidate, a possible candidate, or whether a conversion may be less attractive right now, but the actual answer still depends on income, tax brackets, account mix, and long-term retirement goals.

Common Roth Conversion Mistakes

One common mistake is converting too much in a high-income year. Another is focusing only on this year's return rather than the household's long-term income plan. Roth conversions may be most useful when they are coordinated with taxes, spending goals, future withdrawals, and legacy objectives.

Another common mistake is assuming that the Roth bucket is superior to the tax-deferred bucket. Both account types have their own unique benefits. The real strength often comes from flexibility across all three buckets: taxable, tax-deferred, and Roth. Having that diversity may give retirees more flexibility over where income comes from and how much tax they trigger year to year.

Another pitfall is making a tax move in isolation. Just as liquidity decisions may create unnecessary friction if the rules aren't understood, conversion decisions may also create expensive surprises when they aren't modeled carefully before execution.

The real strength often comes from flexibility across all three buckets: taxable, tax-deferred, and Roth.

Is a Roth Conversion Right for Your Situation?

The honest answer is that it depends on an individual's specific circumstances. A Roth conversion may be compelling for someone who expects higher future tax exposure, has cash set aside to pay the tax bill, and is sitting in a temporary lower-income window. It may be far less appealing for someone already in a high bracket or who would need retirement assets themselves to cover both the conversion and the tax cost.

Generalized advice only goes so far. The same conversion amount may be appropriate for one household and a mistake for another. Timing, account mix, age, spending needs, Social Security timing, and future RMDs all matter.

What matters most is whether the conversion fits into a full retirement-income strategy. Effective planning is not about winning a single tax year. It's about keeping more lifetime earnings, preserving flexibility, and helping retirement dollars work in a way that supports a happy retirement.

Effective planning is not about winning a single tax year. It's about keeping more earnings.



Using the Gap Years Productively

Meet Roth Rod and Conversion Carrie

The fictional Rod and Carrie are both 64, recently retired, and live in Atlanta. They have about \$1.2 million in deductible IRAs, \$500,000 in a joint brokerage account, and \$60,000 already sitting in a Roth from prior contributions. Their plan is to delay Social Security until age 70 to potentially maximize their benefits. They have no pension income.

In their first few years of retirement, Rod and Carrie's taxable income is unusually low compared to their working years. They draw about \$60,000 per year from their brokerage account and cash reserves, which keeps them in a relatively modest tax bracket, but projections show that once required minimum distributions begin in their 70s, those same IRAs may push their future income into much higher brackets and increase their Medicare-related costs.

They adopt a multi-year Roth conversion plan. Each year from 64 to 70, they convert \$50,000–\$70,000 from their deductible IRAs into their Roth. The hope is to stop just before they jump into the next tax tier and to use cash and brokerage funds to pay the tax, so the full conversion lands in the Roth. Over six years, they shift just over \$300,000 into Roth, potentially lowering future required distributions and building a tax-free bucket for later.

In the decision tree, they follow the path where current income is modest, future RMDs look large, and they can pay the tax bill from outside savings—landing them in the “strong” or “possible” candidate zone for staged, bracket-aware conversions.

Rod & Carrie's Roth Window

Ages: 64–70

Early gap years before Social Security and RMDs

\$1.2 million

Pre-tax IRAs

\$50,000–\$70,000 per year

Annual conversions

Bracket Goal

Fill the current bracket, avoid the next tier

Tax Bill

Paid from cash/brokerage, not from the IRA itself

A Roth Conversion at the Wrong Time

Meet Betty Backfire

The make-believe Betty is 58, still working, and already in a high tax bracket. She heard that Roth conversions might create tax-free growth and decides to convert \$400,000 from an old pre-tax retirement account in a single year.

The problem is timing. That large conversion stacks on top of her salary, pushes the conversion dollars into a higher tax bracket, and possibly creates a much larger tax bill than anticipated. She also uses part of the retirement account itself to pay the tax, which leaves less money in the Roth to grow.

In the decision tree, Betty follows the branch where current income is already high, the conversion is large, and the tax bill cannot be paid comfortably from outside cash. That puts her in the “less attractive right now” category and suggests waiting for a lower-income year or converting in smaller stages instead.

Betty's Conversion Warning Signs

Age: 58

Still working

Income

Already high before the conversion

\$400,000 in one year

Conversion

Problem

Higher bracket exposure and a larger tax bill

Extra Friction

Uses retirement dollars to pay the tax


Sit Down With an Advisor Before You Convert

A Roth conversion may be a powerful tool, but it is not a DIY shortcut for everyone. Rather, it's a tax decision, a retirement-income decision, and a portfolio decision all at once, and that's exactly why it may be helpful to have it evaluated in the context of a full plan.

Before converting, it may be helpful to sit down with an advisor and map out the real numbers. Look at this year's income, future required minimum distributions, Social Security timing, expected retirement spending, and how the tax bill would be paid. Then decide whether a partial conversion, a multiyear strategy, or no conversion at all makes the most sense.

An effective Roth conversion has the potential to create meaningful long-term flexibility. An ineffective one could become an expensive mistake. A thoughtful planning conversation might help determine which side of that line a household or individual lands on.

Ready to find out whether a Roth conversion fits your retirement plan? Schedule time with Capital Investment Advisors to review your tax brackets, retirement income strategy, and long-term goals before making a move. A personalized conversion analysis might help turn a popular idea into a strategy built for your situation.



Strategy makes
the difference.

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Withdrawals from a Roth IRA are generally tax-free if you are over age 59½ and have held the account for at least 5 years; withdrawals of earnings taken prior to age 59½ or 5 years may be subject to ordinary income tax or a 10% federal penalty tax, or both. (A separate 5-year period applies for each conversion and begins on the first day of the year in which the conversion contribution is made.)

Roth conversions may not be appropriate for all investors. The potential benefits and drawbacks of a Roth conversion depend on numerous factors, including but not limited to current and future tax rates, income levels, investment time horizons, liquidity needs, estate planning objectives, and changes in tax law. There can be no assurance that any Roth conversion strategy will result in favorable tax outcomes or improved financial results.

Any references to tax-free growth or tax-free withdrawals are subject to applicable IRS rules and requirements. Future tax laws and regulations may change and could affect the benefits described.

The examples contained in this publication are for illustrative purposes only. They do not represent the experience of any actual client, are not guarantees of future results, and are not intended to predict or project the performance or outcome of any specific strategy. Actual results will vary.

The Roth Conversion Decision Tree is intended solely as an educational planning framework and should not be relied upon as a substitute for individualized financial, tax, or retirement planning analysis.

Investing involves risk, including the possible loss of principal. Past performance is not indicative of future results.

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Special thanks to James Lewis, CFP®, for his original Roth conversion strategy article and decision tree, which informed the concepts and visual framework used throughout this eBook. His work on integrating tax brackets, Medicare premiums, RMDs, and balance-sheet planning into a single Roth conversion framework provided the foundation for this guide.