

The Math Behind Roth Conversions



We have been reviewing our clients' tax planning to see if a Roth conversion is of benefit. Let's review why a Roth conversion may increase your wealth.

HOW DOES A ROTH CONVERSION WORK?

Anyone with an IRA can choose to convert to a Roth IRA. The amount converted is included in income on the tax return. The tax due can be paid out of the conversion or from outside funds. The Roth earnings are tax free after the conversion.

Assume a 24% Federal Tax Bracket and a \$100,000 IRA

Balance Converted	\$ 100,000
Tax @ 24%	(24,000)
Conversion to Roth	\$ <u>76,000</u>

Assume an 8% investment return

	<u>Regular</u>	<u>Roth</u>
Beginning Balance	\$100,000	\$ 76,000
Balance in 15 Years	317,217	\$241,085
After Tax ---24%	\$241,085	\$241,085
---28%	228,396	241,085
---20%	253,774	241,085

A Roth Conversion is desirable if the tax rate now is lower than the tax rate in the future. If the rates are the same, there is no difference between converting and leaving the money in the regular IRA.

SO WHY CONSIDER CONVERSION?

- 1.) Review the 2017 and 2022 tax tables at the bottom of this page. Note that a married couple in 2017 would pay 25% tax up to \$153,100 in income. In 2022, the couple could have income of up to \$340,100 and pay only 24% tax.

Tax rates are low now. Rates are likely to be the same or higher in the future.

- 2.) Review the Required Minimum Distribution table on the back page. For someone who is 72 in 2023 with a \$1 million IRA, the RMD will be \$36,496. By age 90, the RMD will be \$171,071.

Higher RMDs as you grow older will likely push you into a higher tax bracket.

- 3.) Note on the tax tables that a married couple can have up to \$340,100 and be taxed at 24% while a single taxpayer can only have \$170,050.

If you are married and one spouse dies, your RMDs will be taxed at a higher rate.

OUR SUGGESTION...

The new tax law has given us the opportunity to do Roth Conversions at favorable tax rates. This is a good time to consider making Roth Conversions to take advantage of the tax brackets from 10 to 24%. We will review your tax situation and suggest a Roth conversion if it will benefit you.

2017 Rates

Rate	Single	Married
10%	\$0 - 9,325	\$0 - 18,650
15%	\$9,325 - 37,950	\$18,650 - 75,900
25%	\$37,950 - 91,900	\$75,900 - 153,100
28%	\$91,900 - 191,650	\$153,100 - 233,350
33%	\$191,650 - 416,700	\$233,350 - 416,700
35%	\$416,700 - 418,400	\$416,700 - 470,700
39.6%	Over \$418,400	Over \$470,700

2022 Rates

Rate	Single	Married
10%	\$0 - 10,275	\$0 - 20,550
12%	\$10,275 - 41,775	\$20,550 - 83,550
22%	\$41,775 - 89,075	\$83,550 - 178,150
24%	\$89,075 - 170,050	\$178,150 - 340,100
32%	\$170,050 - 215,950	\$340,100 - 431,900
35%	\$215,950 - 539,900	\$431,900 - 647,850
37%	Over \$539,000	Over \$647,850

Summary of Distributions

12/29/2022

Calculating Minimum Distributions for Qualified Plan or IRA
 Current Year: 2023
 Year of First Required Distribution: 2023
 12/31/2022 Plan Balance: \$1,000,000.00
 Expected Plan Growth: 10.0000%
 Distributions Taken at Beginning of Each Year
 Is there a Designated Beneficiary?: No
 Owner's Birth Date: 1/1/1951
 Assumes No Death Occurs During Years Shown

<u>Year</u>	<u>Age</u>	<u>Balance</u>	<u>Life Exp.</u>	<u>Distribution</u>	<u>Total Distributed</u>
2023	72	\$1,000,000.00	27.4	(1) \$36,496.35 ★	\$36,496.35
2024	73	\$1,059,854.02	26.5	\$39,994.49	\$76,490.84
2025	74	\$1,121,845.48	25.5	\$43,993.94	\$120,484.78
2026	75	\$1,185,636.69	24.6	\$48,196.61	\$168,681.39
2027	76	\$1,251,184.09	23.7	\$52,792.58	\$221,473.97
2028	77	\$1,318,230.66	22.9	\$57,564.66	\$279,038.63
2029	78	\$1,386,732.60	22.0	\$63,033.30	\$342,071.93
2030	79	\$1,456,069.23	21.1	\$69,008.02	\$411,079.95
2031	80	\$1,525,767.33	20.2	\$75,533.04	\$486,612.99
2032	81	\$1,595,257.72	19.4	\$82,229.78	\$568,842.77
2033	82	\$1,664,330.73	18.5	\$89,963.82	\$658,806.59
2034	83	\$1,731,803.60	17.7	\$97,842.01	\$756,648.60
2035	84	\$1,797,357.75	16.8	\$106,985.58	\$863,634.18
2036	85	\$1,859,409.39	16.0	\$116,213.09	\$979,847.27
2037	86	\$1,917,515.93	15.2	\$126,152.36	\$1,105,999.63
2038	87	\$1,970,499.93	14.4	\$136,840.27	\$1,242,839.90
2039	88	\$2,017,025.63	13.7	\$147,228.15	\$1,390,068.05
2040	89	\$2,056,777.23	12.9	\$159,440.10	\$1,549,508.15
2041	90	\$2,087,070.84	12.2	(2) \$171,071.38 ★	\$1,720,579.53
2042	91	\$2,107,599.41	11.5	\$183,269.51	\$1,903,849.04
2043	92	\$2,116,762.89	10.8	\$195,996.56	\$2,099,845.60
2044	93	\$2,112,842.96	10.1	\$209,192.37	\$2,309,037.97
2045	94	\$2,094,015.65	9.5	\$220,422.70	\$2,529,460.67
2046	95	\$2,060,952.25	8.9	\$231,567.67	\$2,761,028.34
2047	96	\$2,012,323.04	8.4	\$239,562.27	\$3,000,590.61
2048	97	\$1,950,036.85	7.8	\$250,004.72	\$3,250,595.33
2049	98	\$1,870,035.34	7.3	\$256,169.22	\$3,506,764.55
2050	99	\$1,775,252.73	6.8	\$261,066.58	\$3,767,831.13
2051	100	\$1,665,604.77	6.4	\$260,250.75	\$4,028,081.88
2052	101	\$1,545,889.42	6.0	\$257,648.24	\$4,285,730.12
2053	102	\$1,417,065.30	5.6	\$253,047.38	\$4,538,777.50
2054	103	\$1,280,419.71	5.2	\$246,234.56	\$4,785,012.06
2055	104	\$1,137,603.67	4.9	\$232,164.01	\$5,017,176.07
2056	105	\$995,983.63	4.6	\$216,518.18	\$5,233,694.25
2057	106	\$857,412.00	4.3	\$199,398.14	\$5,433,092.39
2058	107	\$723,815.25	4.1	\$176,540.30	\$5,609,632.69
2059	108	\$602,002.45	3.9	\$154,359.60	\$5,763,992.29
2060	109	\$492,407.14	3.7	\$133,083.01	\$5,897,075.30

- (1) 12% bracket for Single
 (2) Likely 24% bracket or higher for Single