

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, net of expenses

	<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
---32%	163,938	241,085
---22%	247,429	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 2025 tax table below. Note that a married couple in 2025 could have taxable income up to \$394,600 and only pay 24% Federal tax.

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

2025 Rates

Rate	Single	Married
10%	\$0 – 11,925	\$0 – 23,850
12%	\$11,925 – 48,475	\$23,850 – 96,950
22%	\$48,475 – 103,350	\$96,950 – 206,700
24%	\$103,350 – 197,300	\$206,700 – 394,600
32%	\$197,300 – 250,525	\$394,600 – 501,050
35%	\$250,525 – 626,350	\$501,050 – 751,600
37%	Over \$626,350	Over \$751,600

- 2.) Review the Required Minimum Distribution table on the back page. For someone who is 73 in 2026 with a \$1 million IRA, the RMD will be \$37,736. By age 90, the RMD will be \$161,410.

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 \$394,600 and be taxed at 24% while a single taxpayer can only have \$197,300.

If you are married and one spouse dies, your RMDs may 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.

Summary of Distributions

11/6/2025

Calculating Minimum Distributions for Qualified Plan or IRA
 Current Year: 2026
 Year of First Required Distribution: 2026
 12/31/2025 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: 1/1/1953
 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>
2026	73	\$1,000,000.00	26.5	(1) \$37,735.85	\$37,735.85
2027	74	\$1,058,490.57	25.5	\$41,509.43	\$79,245.28
2028	75	\$1,118,679.25	24.6	\$45,474.77	\$124,720.05
2029	76	\$1,180,524.93	23.7	\$49,811.18	\$174,531.23
2030	77	\$1,243,785.13	22.9	\$54,313.76	\$228,844.99
2031	78	\$1,308,418.51	22.0	\$59,473.57	\$288,318.56
2032	79	\$1,373,839.43	21.1	\$65,110.87	\$353,429.43
2033	80	\$1,439,601.42	20.2	\$71,267.40	\$424,696.83
2034	81	\$1,505,167.42	19.4	\$77,585.95	\$502,282.78
2035	82	\$1,570,339.62	18.5	\$84,883.22	\$587,166.00
2036	83	\$1,634,002.04	17.7	\$92,316.50	\$679,482.50
2037	84	\$1,695,854.09	16.8	\$100,943.70	\$780,426.20
2038	85	\$1,754,401.43	16.0	\$109,650.09	\$890,076.29
2039	86	\$1,809,226.47	15.2	\$119,028.06	\$1,009,104.35
2040	87	\$1,859,218.25	14.4	\$129,112.38	\$1,138,216.73
2041	88	\$1,903,116.46	13.7	\$138,913.61	\$1,277,130.34
2042	89	\$1,940,623.14	12.9	\$150,435.90	\$1,427,566.24
2043	90	\$1,969,205.96	12.2	(2) \$161,410.32	\$1,588,976.56
2044	91	\$1,988,575.20	11.5	\$172,919.58	\$1,761,896.14
2045	92	\$1,997,221.18	10.8	\$184,927.89	\$1,946,824.03
2046	93	\$1,993,522.62	10.1	\$197,378.48	\$2,144,202.51
2047	94	\$1,975,758.55	9.5	\$207,974.58	\$2,352,177.09
2048	95	\$1,944,562.37	8.9	\$218,490.15	\$2,570,667.24
2049	96	\$1,898,679.44	8.4	\$226,033.27	\$2,796,700.51
2050	97	\$1,839,910.79	7.8	\$235,886.00	\$3,032,586.51
2051	98	\$1,764,427.27	7.3	\$241,702.37	\$3,274,288.88
2052	99	\$1,674,997.39	6.8	\$246,323.15	\$3,520,612.03
2053	100	\$1,571,541.66	6.4	\$245,553.38	\$3,766,165.41
2054	101	\$1,458,587.11	6.0	\$243,097.85	\$4,009,263.26
2055	102	\$1,337,038.19	5.6	\$238,756.82	\$4,248,020.08
2056	103	\$1,208,109.51	5.2	\$232,328.75	\$4,480,348.83
2057	104	\$1,073,358.84	4.9	\$219,052.82	\$4,699,401.65
2058	105	\$939,736.62	4.6	\$204,290.57	\$4,903,692.22
2059	106	\$808,990.66	4.3	\$188,137.36	\$5,091,829.58
2060	107	\$682,938.63	4.1	\$166,570.40	\$5,258,399.98
2061	108	\$568,005.05	3.9	\$145,642.32	\$5,404,042.30
2062	109	\$464,599.00	3.7	\$125,567.30	\$5,529,609.60
2063	110	\$372,934.87	3.5	\$106,552.82	\$5,636,162.42

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