

Clients frequently ask whether Roth conversions could substantially reduce their lifetime taxes. Sometimes they can. But in most of the retirement plans I analyze, the projected improvement in after-tax wealth is more modest than clients expect. The following examples illustrate why.

Below are two Roth conversion scenarios. In this first scenario the couple are both age 65 and have \$2M in an IRA. Annual Social Security is \$84,000 beginning at age 67. Their annual spending is \$100,000, increasing annually with 2.5% assumed inflation. Their accounts grow 6% annually of which 2% are dividends. The optimal annual conversion amount was determined to be \$125,000 for ten years. The income related monthly Medicare adjustment amount is applied where applicable.

This is typically the scenario I encounter. The client may believe that there's great tax savings in the transaction. However, because they need to withdraw from the tax deferred account for spending, there's little headroom left in the relevant tax bracket for the converted amounts.

The table below shows the account values in 25 years in today's dollars. Remaining traditional IRA balances are reduced by an assumed 22% future income tax liability which is the marginal tax rate paid in the last year.

The increase in account values is relatively modest. Converting \$125,000 per year would increase post tax wealth by \$115,000 over 25 years, a 4% increase. to the ending account value. They don't have savings outside the IRA so the tax bill associated with the conversion must also come from the IRA.

| Annual conversion    | \$0                                      | \$55,000     | \$100,000    | \$125,000    |
|----------------------|------------------------------------------|--------------|--------------|--------------|
|                      | Future account values in today's dollars |              |              |              |
| IRA                  | 1,380,382                                | 985,514      | 637,350      | 445,968      |
| Taxable              | 1,276,173                                | 855,849      | 489,213      | 285,824      |
| Roth                 |                                          | 897,690      | 1,632,164    | 2,039,975    |
|                      | \$ 2,656,554                             | \$ 2,739,053 | \$ 2,758,726 | \$ 2,771,767 |
| Lifetime tax savings |                                          | \$ 82,499    | \$ 102,172   | \$ 115,213   |

The increase comes from two sources. First, the difference between the tax rate paid on the conversion and the tax rate paid that would have been paid on the RMD had there been no conversions. For married couples filing jointly in 2026, taxable income between \$100,800 and \$403,550 falls within the 22% and 24% federal brackets. This broad range means that a larger future IRA withdrawal does not necessarily produce a dramatically higher tax rate. Converting at 22% to avoid a future 24% rate provides an advantage, but the difference is only two percentage points. The next tax bracket is 32% and extends up to \$512,450.

The second source of the increase is less obvious. Unspent RMDs are deposited in the brokerage account with a 2% dividend yield which is taxed annually at 15% resulting in a 0.3% annual tax loss. The amounts going into that account are smaller due to the conversions. It takes time for that small tax loss to make a difference. Total post tax account savings in today's dollars over time are shown below.

| Years | Savings    |
|-------|------------|
| 10    | \$ 23,445  |
| 15    | \$ 40,169  |
| 20    | \$ 71,605  |
| 25    | \$ 115,213 |

Below is the result of a \$4M IRA and \$150,000 in spending. Converting \$150,000 annually for ten years increases the post tax account values by \$164,000, a 3% increase to account values.

|         | No conversion | Convert \$150k/yr |
|---------|---------------|-------------------|
| IRA     | 2,908,049     | 1,733,386         |
| Taxable | 2,765,456     | 1,655,929         |
| Roth    |               | 2,448,294         |
|         | 5,673,504     | 5,837,609         |
| Savings |               | 164,104           |

A pension can reduce the opportunity to convert at low tax rates.

Someone funding early retirement from cash savings may have little taxable income, creating an opportunity to convert at low—and sometimes zero—federal income tax rates.

In these two examples, Roth conversions increased projected ending after-tax wealth by approximately 3% to 4%. Those are worthwhile improvements, but they are smaller than the dramatic savings sometimes associated with this strategy.

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