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Roth IRA Conversions: Not An All-or-Nothing Idea

If you expect to be in a similar or higher tax bracket when you retire as you are today, consider converting some of your retirement assets to a tax-free Roth IRA account.

No one likes to pay more in taxes than they have to, especially after working a lifetime to save for retirement. That's why it's important to not only consider diversification across asset classes, but also to consider tax diversification.

There are three categories for taxes and investments: taxable, tax-deferred, and tax-free.

1. A **taxable account** might include stocks, bonds, or mutual funds that you purchase outside a retirement plan (a nonqualified account); you can be taxed on income received as the account grows, as well as on any profits made once the investments are sold.
2. **Tax-deferred**, also known as qualified accounts, include 401(k), SEP, or SIMPLE accounts and grow tax-free in their savings years, but withdrawals are taxed.
3. **Tax-free accounts,** such as Roth IRAs, are funded with after-tax dollars, grow tax-free, and distributions are typically tax-free for retirement-age individuals. Unlike traditional IRAs, they have no required minimum distribution. Younger individuals are able to take distributions in certain situations without penalty.

Having too much of your nest egg in the tax-deferred basket, such as a work-sponsored 401(k) and a traditional IRA, may increase your tax burden in retirement. To maximize the amount of money you get to keep vs. what you owe Uncle Sam, consider spreading your retirement nest egg across a variety of tax treatments.

Taxes Now vs. Taxes Later

Roth IRAs give investors the option to pay taxes now, when contributing to the account, rather than paying later when taking withdrawals. However, Roth IRAs have income-eligibility restrictions as well as lower contribution limits. If your income is too high, you're unable to contribute directly.

But there's more than one way to contribute to a Roth IRA. In a Roth IRA conversion, you can withdraw funds from a traditional IRA, pay taxes on that amount, and then move it into a Roth IRA. You don't have to convert your entire existing IRA; instead, you can convert an amount that keeps you within the same tax bracket for the

Key Points

- Just like diversifying across asset classes is beneficial for your investments, so is diversifying your retirement portfolio across tax treatments.
- You can convert all or just a portion of a tax-deferred traditional IRA to a tax-free Roth IRA to help shift some of your tax burden away from your retirement years.
- Your financial or tax professional can offer guidance whether a Roth conversion makes sense for your financial situation.

year. This can be especially advantageous if you're in a relatively low tax bracket and expect to be in a higher bracket in later years.

One Size Doesn't Fit All

The first step is to determine your current tax bracket and how much wiggle room you'd have before reaching the next bracket (**FIGURE 1**). Once you know the maximum you could convert and remain in the same bracket, the next step is to determine how much you can afford to convert based on the taxes the conversion would generate (which you'd pay when filing your taxes the following year since the conversion counts toward the current year's income).

FIGURE 1: 2025 Income Tax Brackets

Tax Rate	For Married Individuals Filing Joint Returns	For Single Filers	For Heads of Households
10%	≤ $23,850	≤ $11,925	≤ $17,000
12%	> $23,850 and ≤$96,950	> $11,925 and ≤ $48,475	> $17,000 and ≤ $64,850
22%	> $96,950 and ≤ $206,700	> $48,475 and ≤ $103,350	> $64,850 and ≤ $103,350
24%	> $206,700 and ≤ $394,600	> $103,350 and ≤ $197,300	> $103,350 and ≤ $197,300
32%	> $394,600 and ≤ $501,050	> $197,300 and ≤ $250,525	> $197,300 and ≤ $250,500
35%	> $501,050 and ≤ $751,600	> $250,525 and ≤ $626,350	> $250,500 and ≤ $626,350
37%	> $751,600	> $626,350	> $626,350

Source: IRS, 2025

Here's an example: Last year, Elaine, who files taxes as a single individual, had an adjusted gross income of $110,000, expects to have about the same income this year, and has $250,000 saved in a traditional IRA. This puts her in the 24% tax bracket for 2025. She could potentially convert up to $87,300 to a Roth IRA while staying in same tax bracket (the maximum income for the 24% bracket for a single filer for 2025 is $197,300, minus her $110,000 salary = $87,300).

The determining factor comes down to how much Elaine can afford to convert due to the taxes she will incur: If she converts $10,000 in 2025, it would increase her 2025 federal taxes by $2,400 when she files them in 2026; if she converts enough to reach the upper limit of her bracket, $87,300, she'd owe $20,952 when she files her 2025 taxes.

The beauty of converting a portion at a time is that it doesn't have to be a once-and-done move, either. If Elaine can afford to convert a few thousand dollars each year for several years, she could eventually convert a large portion of a traditional IRA to a Roth IRA without triggering a large tax bill all at once.

> "The beauty of converting to a Roth IRA in portions is that it can be done over the course of several years without triggering a large tax bill all at once.

Many Benefits, But Also Many Rules

While Roth IRA conversions can be beneficial, there are also certain rules and regulations surrounding them that can be complicated.

For example, how the funds were contributed to your traditional IRA can impact how your conversion is taxed. Having a mix of pre-tax and after-tax contributions to a traditional IRA makes a Roth conversion subject to the "pro-rata rule," which means determining what percentage of the conversion is taxable (pre-tax contributions) and what isn't (after-tax contributions).

Additionally, it may be tempting to use funds from your traditional IRA to offset the tax burden of the Roth conversion. However, this could do more harm than good by setting back your retirement savings overall. Converting part of your IRA may only make sense in years in which you have a windfall or additional wiggle room in your budget that can cover the taxes without dipping into your nest egg.

Finally, if your income puts you in one of the highest tax brackets or if you're near the high end of your tax bracket for that year, a Roth conversion may lose much of its tax-efficient luster. The additional income from the conversion could trigger the 3.8% net investment income tax if it pushes you above the limits for your modified adjusted gross income for that year (for 2025, the limit is $250,000 for married filers and $200,000 for single filers).

> A Roth IRA conversion may be a helpful way to add tax diversification to your nest egg.

Work With a Professional

A partial Roth IRA conversion may be a helpful way to add tax diversification to your nest egg, but it's not the right financial move for everyone. You should consider all of your retirement assets and work with a financial or tax professional to make sure you're not overlooking any nuances in the tax code or your particular situation.

If you're concerned your tax rate won't be lower in retirement, think your retirement portfolio lacks tax diversification, and think you have enough money to cover the taxes accrued on a Roth IRA conversion, consider talking to your tax or financial professional about divvying up your tax-diversification buckets.

FIGURE 2: 2025 Roth IRA Contribution Eligibility

If Your Filing Status Is...	And Your Modified Adjusted Gross Income Is...	Then You Can Contribute...
Married filing jointly or qualifying widow(er)	< $236,000	$7,000; $8,000 if age 50 and older
	≥ $236,000 but < $246,000	A reduced amount
	≥ $246,000	Not eligible
Married filing separately and you lived with your spouse at any time during the year	< $10,000	A reduced amount
	≥ $10,000	Not eligible
Single, head of household, or married filing separately and you did not live with your spouse at any time during the year	< $150,000	$7,000; $8,000 if age 50 and older
	≥ $150,000 but < $165,000	A reduced amount
	≥ $165,000	Not eligible

Source: IRS, 2025

Talk to your financial or tax professional about the benefits of converting a portion of your traditional IRA to a Roth IRA.

Important Risks: Investing involves risk, including the possible loss of principal. Diversification does not ensure a profit or protect against a loss in declining market.