ROTH IRA CONVERSIONS

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Looking to convert your traditional IRA to a Roth IRA? Here are a few points to keep in mind.

If you're like many investors who have their retirement savings in conventional tax-deferred accounts, such as traditional IRAs and 401(k) plans, you may not be utilizing all of the effective retirement savings vehicles at your disposal. While these arrangements enable you to postpone paying taxes on your contributions and investment returns, they don't shield you from paying taxes at a future date. A Roth IRA, however, can insulate your earnings from taxes at a time when you may need tax shelter the most — in retirement.*

The Roth advantage:

There are a number of reasons to think about converting some or all of your retirement savings to a Roth IRA:

Tax-free treatment for eligible withdrawals

While amounts withdrawn from tax-deferred accounts are generally subject to income tax at the time of withdrawal (and perhaps a penalty if you are under age 59½ when you withdraw them), your withdrawals from a Roth — including account earnings — will be tax-deferred. What's more, earnings can be withdrawn tax-free and penalty-free if you've owned the account for at least five years and meet one of these conditions: 1) age 59½ or older; 2) death; 3) disability; or 4) first-time home purchase ($10,000 lifetime limit).[1]

Protection from future tax hikes

Provided you are eligible for a tax-free withdrawal, your Roth IRA assets are shielded from taxes at the current tax rate. Even if income tax rates go up at some point down the road, you can continue to take eligible withdrawals on a tax-free basis from your Roth IRA.

Taxation upon conversion

You must pay income taxes on the money you convert to a Roth IRA, but you can withdraw the converted amount at any time without tax consequences. (Note that you may be subject to early withdrawal penalties if you are under age 59½ and withdraw converted amounts within five years of conversion). Similarly, regular Roth contributions are not tax-deductible and can be therefore, withdrawn tax-free from the account at any time.[2]

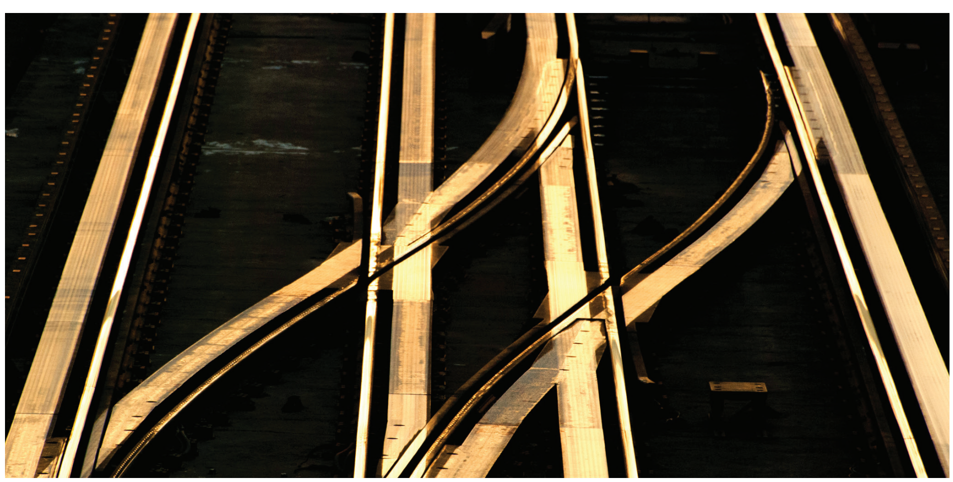
Tax planning

Tax professionals sometimes recommend allocating some assets to tax-free Roth IRAs and others to tax-deferred accounts, such as traditional IRAs.

Having both tax-free and taxable sources of retirement income can help you plan your withdrawals strategically for tax purposes.

Legacy planning

You must start taking required minimum distributions from most tax-deferred accounts when you reach age 73 (or age 70½ if you were born on or before June 30, 1949, or age 72 if you were born between July 1, 1949, and December 31, 1950). Roth IRAs, however, are not governed by this rule, allowing you to preserve the assets and eventually pass them to your beneficiaries tax-free — a potentially attractive option if you want to maximize your giving legacy.



* Because Roth IRA contributions are not tax-deductible, they can be withdrawn from the Roth IRA tax-free and penalty-free at any time.

To convert or not to convert?

Each investor's goals and needs are unique, and a Roth IRA conversion is not for everyone. To make the right decision for your situation, it's essential to seek guidance from your financial and tax professionals. They can help you weigh the tax implications of converting to a Roth against the potential long-term benefits.

Generally speaking, a Roth conversion may be a good option if one or more of these statements apply to you:

- You expect your income tax bracket in retirement to be the same as or higher than it is now.
- You are unlikely to need to withdraw from the Roth IRA for at least five years following the conversion.
- You want more flexibility with regard to when and how you make retirement withdrawals.
- You have made non-deductible (after-tax) contributions to your tax-deferred retirement accounts.
- You plan to leave all or most of your retirement assets to your beneficiaries upon your death, noting that the ability to "stretch" is now limited.
- You can pay the income tax on the conversion from non-IRA resources.

QUICK TIPS

To reduce the tax cost of a Roth IRA conversion, you can convert just a portion of your retirement assets. Ask your tax advisor if a partial conversion makes sense for you.

Depending on your company's retirement plan, you may be able to convert assets in an employer-sponsored retirement plan to a Roth IRA. Talk to the company's benefits officer or your financial professional for more information.

Talk to your financial professional to find out more.

A Roth IRA can be a powerful retirement planning tool. You owe it to yourself — and your financial future — to find out if a Roth conversion can play a role in your retirement strategy. Take the first step and talk to your financial or tax professional today.

LEARN MORE

For more information, please contact your financial professional.

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[1] Distributions from a traditional IRA (excluding any non-deductible contributions) will generally be subject to taxation at then-current federal and state income tax rates. Distributions made prior to age 59½ may also be subject to an additional 10% early withdrawal penalty tax, unless an exception applies. Amounts converted from a traditional IRA to a Roth IRA are taxable (excluding any non-deductible contributions) and can therefore subsequently be withdrawn from the Roth IRA tax-free at any time, but these amounts may be subject to the 10% early withdrawal penalty tax if the taxpayer is under age 59½ and withdraws the funds within the five-year period following the conversion. Distributions of accumulated Roth IRA earnings are tax-free and penalty-free if the taxpayer has owned a Roth IRA for at least five years and meets one of the following criteria: 1) attainment of age 59½; 2) death; 3) disability; or 4) first-time home purchase ($10,000 lifetime limit). Consult a tax advisor for further details.

[2] Investors who are eligible to convert assets to a Roth IRA may or may not be eligible to make regular Roth IRA contributions. Allowable annual contributions to a Roth IRA are phased out based on taxpayer filing status and modified adjusted gross income (MAGI), as follows for 2025: single with MAGI under $150,000 — full contribution allowed ($7,000 if under age 50, $8,000 if 50 or older); single with MAGI of $150,000 to $165,000 — partial contribution allowed; single with MAGI of $165,000 or more — ineligible to contribute; married filing jointly with MAGI under $236,000 — full contribution allowed; married filing jointly with MAGI of $236,000–$246,000 partial contribution allowed; married filing jointly with MAGI of $246,000 or more — ineligible to contribute.

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