

SHOULD I CONVERT MY IRA OR 401(K) TO ROTH?

Converting traditional IRAs and 401(k)s to Roth is becoming a lot more popular these days for several reasons:

1. **Tax-Free Growth and Withdrawals** - One of the primary advantages of a Roth IRA is that your investments grow tax-free, and qualified withdrawals during retirement are also tax-free. This can be a significant benefit for individuals who anticipate being in a higher tax bracket in retirement or expect future tax rates to rise.
2. **No Required Minimum Distributions (RMDs)** - Unlike Traditional IRAs, Roth IRAs are not subject to required minimum distributions (RMDs) during the account holder's lifetime. This allows retirees to keep their savings intact longer and maintain flexibility in managing their income streams.
3. **Estate Planning Advantages** - Roth conversions are becoming a more valuable estate planning tool since the passage of the original SECURE Act in 2019. The SECURE Act requires anybody who inherits a qualified retirement account from a non-spouse to take annual RMDs and fully distribute the account within 10 years. The most common scenario we see is children in their 50s and 60s inheriting IRAs from their parents, typically during their prime earning years where their tax rate is already high. Annual RMDs from an inherited Roth IRA are not taxable, eliminating the additional tax burden created from traditional IRAs.
4. **Diversified Tax Planning** - Converting to a Roth IRA helps diversify your retirement savings across tax-deferred, taxable, and tax-free accounts. This diversification gives you greater control over your taxable income in retirement and enables strategic withdrawals to minimize taxes.

Why December is a Great Time for Roth Conversions

By December, most taxpayers have a clear picture of their income and deductions for the year. This clarity allows for more precise tax planning and helps determine how much to convert without pushing oneself into an undesirably high tax bracket. We can use this time to run simulations and calculate the potential tax impact of a Roth conversion. Remember that Roth conversions must be completed by December 31 to count for that tax year. Waiting until December ensures that the conversion aligns with your overall financial picture for the year, allowing you to make the most informed decision possible. However, Roth conversions can be done at any time of the year.

Roth conversions can be a powerful tool for reducing future tax burdens, enhancing retirement flexibility, and creating tax-free income. Although Roth conversions offer substantial benefits, they are not for everyone. The decision to convert depends on various factors, including: (1) your current and future tax brackets, (2) the availability of funds to pay the conversion taxes, and (3) your retirement and estate goals. Consulting with a financial advisor and/or tax professional is essential to ensure a Roth conversion aligns with your broader financial goals. By carefully considering the timing and extent of a Roth conversion, you can take a significant step toward a more secure financial future. If you'd like to learn more about how a Roth Conversion would work for you, please reach out to us here at [Justabout Wealth Management](#).

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