

# How Roth Conversions Can Help Retirees Lower Taxes

## MOOREINSIGHTS

When people think about retirement planning, they often focus on growing their investments. But one area that can have just as much impact on your financial future is tax planning.

One strategy I frequently discuss with retirees is the Roth conversion. While it's not the right solution for everyone, it can be an effective way to reduce future tax burdens and create more flexibility in retirement.

### **What Is a Roth Conversion?**

A Roth conversion allows you to move money from a traditional IRA into a Roth IRA. The amount converted is taxable in the year of the conversion, but future qualified withdrawals from the Roth can be tax-free.

In simple terms, you're choosing to pay taxes now in exchange for potential tax savings later.

### **Why It Matters**

Many retirees assume they'll automatically be in a lower tax bracket once they stop working. Sometimes that's true, but not always.

Retirement income can come from several sources, including:

- Required Minimum Distributions (RMDs)
- Social Security benefits
- Pension income
- Investment income

As traditional retirement accounts continue to grow, future RMDs can create larger taxable income than many retirees expect. In some cases, this can also affect Medicare premiums and the taxation of Social Security benefits.

That's why I believe tax planning should be part of every retirement income strategy.

### **The Opportunity in the "Gap Years"**

One of the most effective times to consider a Roth conversion is during the years between retirement and the start of Social Security or RMDs.

During these "gap years," taxable income is often lower, which may create an opportunity to convert portions of a traditional IRA at a more favorable tax rate.

Rather than waiting until RMDs increase taxable income later, some retirees choose to spread conversions over several years to maintain greater control over their tax situation.

### **Partial Conversions Often Work Best**

A common misconception is that you need to convert an entire IRA at once.

In reality, many retirees benefit more from a series of smaller conversions. Converting too much in a single year can push income into a higher tax bracket or create other unintended tax consequences.

By taking a measured approach, retirees can often capture the benefits of Roth conversions while managing their overall tax exposure.

### **The Value of Tax Flexibility**

One reason I like Roth IRAs as part of a retirement strategy is flexibility.

Unlike traditional IRAs, Roth IRAs are not subject to required minimum distributions during the owner's lifetime, and qualified withdrawals are generally tax-free.

Having both taxable and tax-free sources of income can give retirees more options when managing cash flow and taxes throughout retirement.

## **Final Thoughts**

A Roth conversion isn't about avoiding taxes. It's about being strategic about when you pay them.

For some retirees, paying taxes on a portion of their retirement savings today may help reduce lifetime taxes, lower future RMDs, and create greater flexibility down the road.

The key is understanding how a Roth conversion fits into your overall retirement plan. Like most financial decisions, the best strategy depends on your unique goals, income needs, and tax situation.

When it comes to retirement planning, I believe proactive tax planning can be just as important as investment planning. Roth conversions are one tool worth considering to keep living life with an upside.

– Tom Moore | Moore Invested

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