

YOUR AGE AND YOUR ROTH IRA CONVERSION

Wednesday, August 31, 2022

By Sarah Brenner, JD

IRA Analyst

Follow Us on Twitter: [@theslottreport](https://twitter.com/theslottreport)

Questions on how age affects the decision to convert to a Roth IRA are common. What age is too old to convert? There is no easy answer to this question because there is no magic age when conversion makes the most sense or no longer makes sense at all. Conversion can be the right move at any age.

Younger Savers

Roth IRA conversions for younger people are usually a smart strategy. This is no surprise. Younger people are generally in a lower tax bracket and have not yet accumulated large sums in their IRAs or 401(k)s. Also, time is on their side. They have a long timeline to save and accrue tax-free earnings in a Roth IRA.

Conversion comes with a tax bill. Any individual who converts should be reminded of that before moving ahead with the conversion. Younger people who may not have time to amass large amounts of savings should be prepared for the tax cost. Now that recharacterization is no longer available there is no way to undo a conversion to escape the tax hit.

Midlife Conversions

For those looking to convert in middle age, timing is critical. These individuals are likely to be in the peak earnings years and in the highest tax brackets. Conversion is best considered in a year when tax conditions are optimal, and when it can be done at a low tax rate or even at no tax cost at all with offsetting tax losses, deductions, or credits.

A tax year with a low tax bracket or with net operating losses from a business is

good year for middle aged savers to consider conversion. Another strategy to investigate is doing a series of smaller annual Roth conversions over several years, to lessen the tax impact in each year.

Too Old to Convert? Think Again

There is no age when an individual is too old to convert. Older individuals may think that they do not have a long time to save, but that is overlooking the potential of conversion as an estate planning strategy.

For older individuals who do not need their retirement savings soon or at all, especially if they plan to pass these funds on to beneficiaries – the Roth conversion is an effective estate planning vehicle, and even more so now after the elimination of the stretch IRA under the SECURE Act. Most beneficiaries will be subject to the 10-year rule which can push the tax bill into a shorter time frame, leaving less for beneficiaries. A Roth conversion can eliminate the tax bill for beneficiaries, since the tax will be paid up front at conversion, possibly at lower tax rates available now.

Older individuals should also be advised that a Roth conversion does increase ordinary income for the year of the conversion – potentially causing the loss of valuable tax credits and deductions, taxation of Social Security, and increased premiums for Medicare Part B and Part D premiums. However, that additional income is only for one year, and the trade off is future tax-free earnings and tax-free distributions from the Roth IRA.

Copyright © 2022, Ed Slott and Company, LLC Reprinted from The Slott Report, [August 31, 2022], with permission. [<https://www.ira-help.com/slottreport/your-age-and-your-roth-ira-conversion>] Ed Slott and Company, LLC takes no responsibility for the current accuracy of this article.