SWEETWATER FINANCIAL ADVISORS GUIDE

5 Questions to Ask About Roth Conversions

How to determine if converting your traditional IRA or 401(k) to a Roth is the right move — and when to do it.

A Roth conversion — moving money from a tax-deferred account (such as a traditional IRA or 401(k)) into a Roth IRA — can be one of the most powerful tax planning strategies available to pre-retirees. But it is not right for everyone, and timing is everything. These five questions will help you understand whether a Roth conversion belongs in your financial plan.

QUESTION 1

What exactly is a Roth conversion — and how does it work?

A Roth conversion moves money from a tax-deferred account (such as a traditional IRA or 401(k)) into a Roth IRA. The amount converted is added to your taxable income in the year of conversion and taxed at your ordinary income rate. In exchange, that money grows tax-free and can be withdrawn tax-free in retirement. There are no income limits on conversions — anyone can convert regardless of income.

QUESTION 2

Who is a good candidate for a Roth conversion?

Roth conversions work best when you are in a temporarily lower tax bracket than you expect to be in the future. This often applies to newly retired individuals before Social Security begins, people between jobs, those who have experienced a lower-income year, and anyone who expects tax rates to rise in the future.

QUESTION 3

When is the best time to do a Roth conversion?

The window between retirement and age 73 — when Required Minimum Distributions begin — is often called the Roth conversion sweet spot. During this period, many retirees are in a lower tax bracket than during their working years. Converting strategically during this window can significantly reduce lifetime tax burden. Conversions can also be done in annual installments to avoid tax bracket creep.

QUESTION 4

How much should I convert — and what will it cost me in taxes?

The goal is typically to convert enough each year to fill up your current tax bracket without crossing into the next. The tax cost is real and immediate — but must be weighed against the long-term benefit of tax-free growth and withdrawals, and potential reduction of future RMDs.

QUESTION 5

What are the risks and downsides of a Roth conversion?

Roth conversions are not reversible. Converting too much in a single year can push you into a higher tax bracket, trigger higher Medicare premiums (IRMAA surcharges), affect Social Security taxation, and reduce eligibility for certain deductions. A poorly timed or oversized conversion can cost more in taxes than it saves — which is why professional guidance matters.

Want to know if a Roth conversion makes sense for you?

Schedule a free 20-minute call — we will run the numbers for your specific situation.

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