A Short Guide to Roth Conversions

The tax bill you don't see coming

Here's a conversation I have often enough that I could recite it in my sleep. A client walks in, proud of the seven-figure balance in their traditional IRA. And I have to be the one to point out something uncomfortable: they don't actually own all of that money. The IRS does — a piece of it, anyway. They just haven't collected yet.

Every dollar in a traditional IRA or 401(k) is tax-deferred, not tax-free. Eventually, that tax bill comes due — either when you withdraw the money, or when the government forces you to via required minimum distributions, or when your heirs inherit the account and have to empty it, often at the worst possible time for their own tax bracket. A Roth conversion is one of the few tools available that lets you decide, on your own terms and your own timeline, when and how that bill gets paid.

This guide won't turn you into a tax strategist overnight. But it will give you a clear, honest picture of what a Roth conversion actually is, when it tends to make sense, and the mistakes I see most often — so that if you decide to explore this further, you're doing it with real information instead of a rule of thumb you read somewhere.

What a Roth conversion actually is

A Roth conversion means moving money from a tax-deferred account, like a traditional IRA or old 401(k), into a Roth IRA. You pay ordinary income tax on the amount you convert in the year you convert it. In exchange, that money — and everything it earns from that point forward — grows tax-free and can be withdrawn tax-free in retirement, as long as you meet the requirements.

That's the trade at the heart of every conversion decision: pay tax now, at a rate you know, versus pay tax later, at a rate you don't. And that uncertainty about "later" is exactly why this deserves real thought rather than a snap decision.

A few mechanical points worth knowing up front:

The five-year rule. Each Roth conversion starts its own five-year clock. To withdraw converted funds without penalty, that specific conversion generally needs to have been in the account for five years, or you need to be 59½ — whichever comes into play depends on your situation. This is one of the most misunderstood parts of Roth conversions, and it's worth getting right before you convert, not after.

The pro-rata rule. If you hold both pre-tax and after-tax (non-deductible) money across your traditional IRAs, you generally can't cherry-pick which dollars you convert. The IRS treats all your traditional IRA money as one pool for conversion purposes. This catches people off guard, especially those attempting a "backdoor" Roth strategy without realizing they have other pre-tax IRA balances in the mix.

No income limits on conversions. Unlike direct Roth IRA contributions, which phase out at higher income levels, there's no income cap on who can do a Roth conversion. This is exactly why the "backdoor Roth" strategy exists for higher earners.

Why 2026 is a year worth paying attention to

Tax planning always benefits from good timing, but a few things make right now a particularly relevant moment to think about conversions:

Current tax brackets. For 2026, the federal brackets for married filing jointly run from 10% at the low end up through 37% at the top, with meaningful room in the 12%, 22%, and 24% brackets for many pre-retirees and early retirees to convert into. Knowing exactly where the next bracket starts — and stopping your conversion right at that line — is the single most common strategy I use with clients, often called "bracket-filling."

The OBBBA senior deduction. The One Big Beautiful Bill Act introduced a temporary deduction of up to $6,000 per person ($12,000 for a married couple, both 65-plus) available for tax years 2026 through 2029. This deduction can create additional room to convert income at a lower effective tax rate for those who qualify — but the details depend on your income level, filing status, and other factors, which is exactly the kind of interaction that's easy to miss without a full picture of your return.

Required minimum distributions are coming, whether you're ready or not. Under SECURE 2.0, RMDs currently begin at age 73 for those born between 1951 and 1959, and age 75 for those born in 1960 or later. The years between retirement and your RMD start age are often the single best conversion window most people ever get — income is typically lower than during working years, and you haven't yet been forced into mandatory withdrawals that stack on top of everything else.

Where Roth conversions tend to make the most sense

In my experience, a few situations come up again and again as strong candidates for conversion strategies:

The gap years between retirement and RMDs. If you've stopped working but haven't started Social Security or RMDs yet, your taxable income may be at its lowest point in years. That's often a genuine window of opportunity.

A future tax bracket that's likely to be higher than today's. This could be because you expect RMDs to push you into a higher bracket later, because you're planning to leave IRA assets to heirs in their own peak earning years, or simply because you believe tax rates broadly are more likely to rise than fall over your lifetime.

Legacy planning for non-spouse beneficiaries. Since the SECURE Act, most non-spouse beneficiaries must empty an inherited IRA within 10 years — often while they're still working and in a high tax bracket themselves. Converting some of that IRA to a Roth during your lifetime can mean handing your heirs a tax-free inheritance instead of a tax bill with a countdown clock attached.

Market downturns. Converting when account values are temporarily down means you pay tax on a smaller number, and the eventual recovery happens inside the tax-free Roth instead of the taxable IRA.

Where conversions can backfire — and the mistakes I see most

Triggering Medicare IRMAA surcharges. This is the mistake I see most often, and it's a particularly painful one because it doesn't show up until two years later. Medicare uses your tax return from two years prior to determine whether you owe an Income-Related Monthly Adjustment Amount on top of your standard Part B and Part D premiums. A large conversion in one year can push your income across an IRMAA threshold and quietly raise your Medicare premiums for the following year — a cost that's easy to overlook if you're only looking at the immediate tax bill.

Converting more than you can pay tax on from outside funds. Ideally, you pay the tax on a conversion using money outside the retirement account — from savings, not from the IRA itself. Using IRA funds to cover the tax bill shrinks the very account you're trying to grow tax-free, and if you're under 59½, that withdrawn portion may also face a penalty.

Converting without a full picture of your tax return. A conversion doesn't happen in isolation. It interacts with Social Security taxation, capital gains rates, the OBBBA senior deduction, and IRMAA thresholds all at once. I've seen well-intentioned conversions done in isolation end up costing more than they saved, simply because nobody looked at the whole return before pulling the trigger.

Doing it all in one year when it doesn't need to be. For most people I work with, a large IRA is better converted gradually, over several years, filling up a target bracket each year rather than converting everything at once and jumping several brackets in a single tax year.

The bottom line

A Roth conversion isn't a strategy you either "believe in" or don't — it's a math problem with a lot of moving parts: your current bracket, your expected future bracket, your Medicare premiums, your legacy goals, and your broader retirement income plan. Done thoughtfully and with the full picture in view, it can meaningfully reduce the lifetime taxes you and your family pay. Done in isolation, based on a headline you read somewhere, it can create expensive surprises two years down the road.

If you have a meaningful balance sitting in a traditional IRA or old 401(k) and you're wondering whether a conversion strategy belongs in your plan, that's exactly the kind of question worth running the numbers on before you decide.

About Jim Cooper

Jim Cooper is a Certified Financial Fiduciary® and National Social Security Advisor with New Insight Financial. Before moving into financial services, Jim spent 30 years in the defense industry, an experience that shaped his belief in careful, methodical planning under real-world constraints. For more than a decade, he has hosted seminars across the community on Social Security, retirement income planning, Medicare, and long-term care — always with the same goal: helping people replace financial uncertainty with a clear, workable plan. Jim's approach is built on a simple principle: People First, Money Second.

Wondering if a Roth conversion fits your plan?

Contact Jim Cooper at jimcooper@newinsightfinancial.com or (863) 589-6850 to schedule a complimentary consultation.

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