



LYONS WEALTH MANAGEMENT, LLC

Key Reasons to Convert to a Roth IRA

A Guide to Understanding the Benefits of Roth Conversions

April 2026

Introduction

A Roth IRA conversion involves moving funds from a traditional pre-tax retirement account (such as a Traditional IRA or 401(k)) into a Roth IRA. You pay income taxes on the converted amount in the year of the conversion, but in return, your money grows tax-free and qualified withdrawals are never taxed again. There is no annual limit on how much you can convert, and there is no income restriction on conversions — unlike direct Roth IRA contributions, which phase out at higher income levels. While a Roth conversion is not the right move for everyone, it can be a powerful strategy under the right circumstances. This guide outlines the key benefits.

1. Tax-Free Growth

One of the most compelling advantages of a Roth IRA is that all investment growth — capital gains, dividends, and interest — accumulates completely tax-free. In a traditional IRA, growth is tax-deferred, meaning you will eventually pay income taxes when you withdraw funds. With a Roth IRA, once you have paid taxes on the converted amount, your money grows without any future tax obligation.

This benefit compounds significantly over time. The longer your funds remain in a Roth IRA, the greater the tax-free growth advantage becomes. For example, a \$100,000 conversion that grows at an average annual rate of 7% would be worth approximately \$197,000 after 10 years and \$387,000 after 20 years — all of it tax-free. In a traditional IRA, a substantial portion of that growth would be lost to taxes upon withdrawal.

Key Point

Roth IRAs are especially powerful for investors with a long time horizon, as every dollar of growth is permanently shielded from federal income tax.

2. Tax-Free Withdrawals in Retirement

Qualified withdrawals from a Roth IRA are entirely free of federal income tax. To qualify, you must be at least 59½ years old and the Roth IRA must have been open for at least five years (the "five-year rule").

This provides several important advantages in retirement:

- **Predictable after-tax income:** Unlike traditional IRA distributions, which are taxed as ordinary income, Roth withdrawals do not increase your taxable income. This makes it easier to plan your spending and manage your tax bracket in retirement.
- **Reduced impact on Social Security taxation:** Up to 85% of Social Security benefits can become taxable if your combined income exceeds certain thresholds. Since Roth distributions are not counted as taxable income, they do not trigger additional taxation of your Social Security benefits.
- **Lower Medicare premiums:** Medicare Part B and Part D premiums are subject to Income-Related Monthly Adjustment Amounts (IRMAA) for higher-income retirees. Roth withdrawals do not count toward the modified adjusted gross income calculation used for IRMAA, potentially helping you avoid premium surcharges.
- **Tax diversification:** Having both pre-tax and Roth accounts in retirement gives you flexibility to manage your taxable income year by year, drawing from whichever source is most tax-efficient.

3. No Required Minimum Distributions (RMDs)

Traditional IRAs and most employer-sponsored retirement plans require you to begin taking Required Minimum Distributions (RMDs) starting at age 73 (or age 75 for those born in 1960 or later, under the SECURE 2.0 Act). These mandatory withdrawals are calculated based on your account balance and life expectancy, and they are taxed as ordinary income — whether or not you need the money.

Roth IRAs, by contrast, have no RMD requirements for the original account owner during their lifetime. A surviving spouse who inherits a Roth IRA and rolls it into their own Roth also avoids RMDs.

This distinction matters for several reasons:

- **Continued tax-free growth:** Without forced distributions, your entire Roth balance can continue compounding tax-free for as long as you live.
- **Greater control over taxable income:** RMDs from traditional accounts can push you into higher tax brackets, increase IRMAA surcharges, and trigger additional taxation of Social Security benefits. Eliminating or reducing RMDs through Roth conversions gives you more control.
- **Flexibility in spending:** You withdraw from a Roth IRA only when and if you choose, rather than being forced to take distributions on the IRS's schedule.
- **Reduced future RMD burden:** Even partial Roth conversions reduce the balance in your traditional IRA, which in turn reduces the size of future RMDs from that account.

4. Estate Planning Advantages

Roth IRAs offer unique benefits when it comes to passing wealth to the next generation, making them one of the most tax-efficient assets to leave to heirs.

Tax-free inheritance for beneficiaries: Under the SECURE Act of 2019, most non-spousal beneficiaries must withdraw the entire balance of an inherited retirement account within 10 years of the original owner's death. For inherited traditional IRAs, these distributions are taxed as ordinary income — potentially at

the beneficiary's highest marginal rate. Inherited Roth IRAs are also subject to the 10-year distribution requirement, but qualified withdrawals are completely tax-free. This can save beneficiaries tens of thousands of dollars in taxes.

No RMDs maximize the inheritance: Because original Roth IRA owners are never required to take distributions, the full account balance — including decades of tax-free growth — can pass to beneficiaries intact. With a traditional IRA, RMDs gradually deplete the account during the owner's lifetime.

Prepaying taxes on behalf of heirs: A Roth conversion is essentially a wealth transfer strategy. By paying income taxes now on the converted amount, you are reducing your taxable estate (the tax payment comes from your assets) while shifting tax-free dollars to your heirs. This is particularly valuable if your beneficiaries are likely to be in high tax brackets.

Spousal benefits: A surviving spouse who inherits a Roth IRA can roll it into their own Roth IRA, continue to enjoy tax-free growth, and avoid RMDs entirely — extending the tax advantage for another generation.

5. Strategic Timing Considerations

The value of a Roth conversion depends heavily on when you do it. Converting at the right time can significantly enhance the benefit; converting at the wrong time can be costly. Here are the key timing factors to consider:

- **Low-income years:** The period between retirement and the start of Social Security benefits or RMDs is often called the "Roth conversion window." During these years, your taxable income may be unusually low, allowing you to convert at a lower tax rate than you would pay later.
- **Tax bracket management:** Rather than converting a large lump sum in a single year (which could push you into a higher bracket), many financial advisors recommend a multi-year strategy — converting enough each year to "fill up" your current tax bracket without spilling into the next one.
- **Current vs. future tax rates:** A conversion is most beneficial when you expect your future tax rate to be higher than your current rate. Consider factors such as future earnings, RMDs, potential changes in filing status, and state tax rates.

- **Market downturns:** Converting during a market decline can be advantageous because you pay taxes on the reduced account value. If the investments subsequently recover, all of the rebound occurs within the tax-free Roth environment.
- **The five-year rule:** Each Roth conversion has its own five-year holding period before the converted amount can be withdrawn penalty-free (if you are under 59½). Plan conversions early enough that the five-year clock is satisfied before you need the funds.
- **IRMAA and ACA considerations:** Large conversions can temporarily spike your modified adjusted gross income, potentially triggering higher Medicare premiums (IRMAA surcharges) or reducing Affordable Care Act premium subsidies. Factor these costs into your conversion calculation.
- **State taxes:** Some states have no income tax, while others tax Roth conversions as ordinary income. If you plan to relocate to a lower-tax state, it may be advantageous to delay conversions until after the move.

Is a Roth Conversion Right for You?

A Roth conversion is not universally beneficial. It tends to work best for individuals who:

- Expect to be in a higher tax bracket in the future
- Have a long time horizon for the converted funds to grow
- Can pay the conversion taxes from non-retirement assets
- Want to reduce or eliminate future RMDs
- Wish to leave tax-efficient assets to their heirs
- Are currently in a low-income year (e.g., early retirement, sabbatical, or career transition)

It may be less advantageous if you:

- Are already in a high tax bracket and expect to be in a lower one in retirement

- Need to use IRA funds to pay the conversion taxes
- Plan to use the funds within the next few years
- Would trigger significant IRMAA surcharges or lose ACA subsidies

A qualified financial advisor or tax professional can help you model the long-term impact of a Roth conversion based on your specific financial situation, tax projections, and retirement goals.

This document is provided for informational and educational purposes only. It does not constitute financial, tax, or legal advice. Tax laws and regulations are subject to change. Consult a qualified financial advisor, tax professional, or attorney before making any decisions regarding Roth IRA conversions or other financial strategies. Individual results will vary based on personal circumstances.