Partial Roth Conversions

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Developing a tax efficient strategy for withdrawing funds from retirement accounts is an important part of retirement planning. It is often recommended to withdraw from taxable brokerage accounts first, so that tax-deferred accounts can continue to grow. Though this may be sound advice for many, there are times when this approach may actually result in paying higher taxes throughout retirement. Michael Kitces, a leader in the financial industry, has researched a resourceful solution to avoid this problem. He suggests a blended approach by taking distributions from both types of accounts, carefully ensuring that you are within your desired tax bracket.[1] To accomplish this, Kitces proposes doing partial Roth conversions—moving funds from a traditional IRA to a Roth IRA—to generate taxable income when your tax bracket may be lower in the early years of retirement, while spending from taxable brokerage accounts for immediate living expenses. This approach may help maximize tax advantages, both now and in the future, by creating tax-free accounts and allowing tax-preferenced accounts to grow as long as possible.[2]

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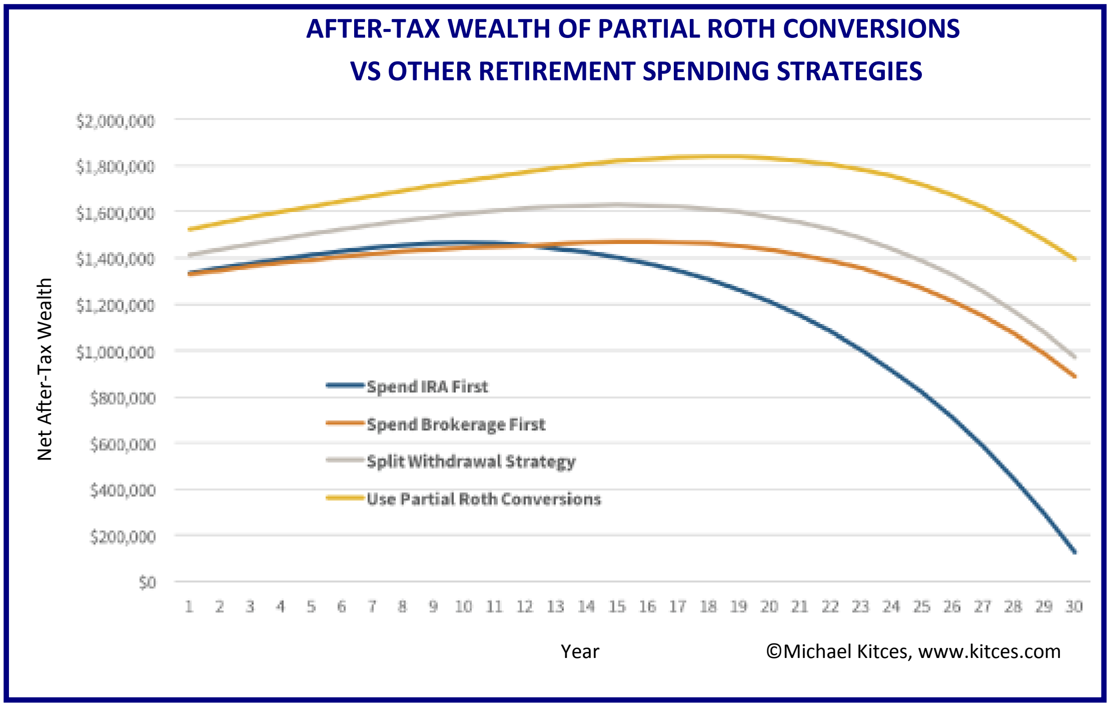

Source: https://www.kitces.com/blog/tax-efficient-retirement-withdrawal-strategies-to-fund-retirement-spending-needs/

Michael Kitces shows in the above graph that doing partial Roth conversions potentially produces greater wealth than the other scenarios, such as spending the Roth IRA first, spending the taxable brokerage account first, or simply withdrawing from both funds. Please consult with your financial and tax advisors to determine which strategy is best for you.

1. Kitces, M. (2016). Tax-efficient spending strategies from retirement portfolios. Retrieved from https://www.kitces.com/blog/tax-efficient-retirement-withdrawal-strategies-to-fund-retirement-spending-needs/
2. Ibid.