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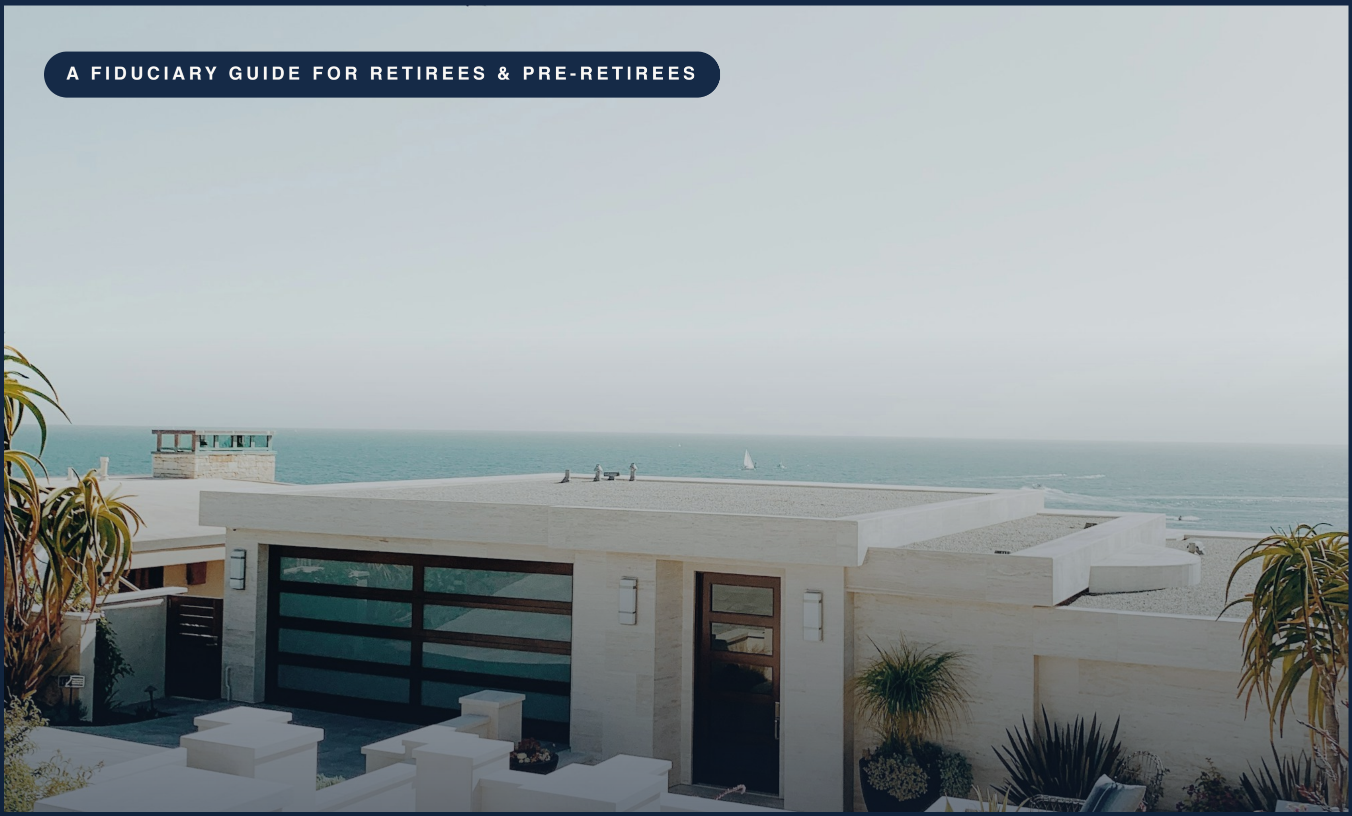

The Roth Conversion *Playbook*

A disciplined framework for converting traditional IRA and 401(k) dollars to Roth — building tax-free income, reducing future RMDs, and leaving a stronger legacy.

PREPARED BY

Lally Wealth Management

Wealth · Income · Protection

VOLUME

II

FOREWORD

Pay tax once. Grow tax-free forever.

Most Americans have spent decades saving in pre-tax accounts — traditional IRAs, 401(k)s, 403(b)s. The bill on those dollars has not been paid. It has only been postponed.

A Roth conversion lets you choose when, and at what rate, to pay that bill. Done thoughtfully — across the right years, in the right amounts — it can meaningfully reduce lifetime taxes, shrink future Required Minimum Distributions, and create a pool of fully tax-free income for you and your heirs.

This playbook explains how the strategy works, who it suits, where the pitfalls live, and how to build a multi-year plan around it.

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EDITOR'S NOTE

For a couple converting $100,000 per year for five years in the 24% bracket, projected lifetime tax savings — including RMD reduction and heir tax — can exceed **$400,000**.

DISCLOSURE

Educational material only. Not tax, legal, or investment advice. Consult qualified professionals before initiating a Roth conversion.

CHAPTER ONE

01

What is a Roth *conversion?*

A Roth conversion is the deliberate movement of pre-tax retirement dollars — from a traditional IRA, 401(k), or similar account — into a Roth IRA. The converted amount is added to your taxable income for that year.

In exchange for paying tax now, those dollars and all of their future growth become **permanently tax-free**. No tax on withdrawals. No Required Minimum Distributions during your lifetime. And, under current law, up to ten years of continued tax-free growth for non-spouse heirs.

The decision is fundamentally about **tax-rate arbitrage**: paying at today's known rate to avoid an unknown — and likely higher — rate later.

TOP FEDERAL BRACKET

37%

Today's top marginal rate. Many planners expect future brackets to revert higher when current law sunsets.

ROTH GROWTH

0%

Qualified Roth withdrawals are entirely federal-tax-free, with no RMDs for the original owner.

$1.0M	~$370K	$0
PRE-TAX IRA BALANCE	TAX IF WITHDRAWN LATER AT TOP RATE	LIFETIME TAX ON A FUNDED ROTH

02

CHAPTER TWO

Why consider *converting?*

A Roth conversion is not about chasing a tax loophole. It is about choosing your tax rate — and removing future uncertainty from a retirement that may last thirty years.

Tax-Free Growth

Every dollar of future appreciation inside the Roth escapes federal income tax — for life.

Eliminate Future RMDs

Roth IRAs are not subject to lifetime Required Minimum Distributions, preserving control over income.

Bracket Management

Fill lower brackets in early retirement before Social Security, RMDs, and survivorship push you higher.

Legacy Efficiency

Heirs inherit a tax-free asset and have ten years of continued tax-free growth under current law.

The question is rarely "should I convert?" It is "how much, in which years, and at what rate?"

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CHAPTER THREE · TIMING

The conversion *window*

WHEN THE MATH WORKS BEST

For most households, the optimal conversion window opens the year you stop earning a full salary and closes when Social Security and RMDs begin. In between, taxable income often falls into the 12% or 24% brackets — a rare opportunity to clear pre-tax accounts at a discount.

STRONG FIT

- Retired before age 73, pre-RMD
- Large traditional IRA / 401(k) balance
- Cash on hand to pay the tax
- Heirs in high tax brackets

WEAKER FIT

- Already at the top bracket today
- Charitable giving will absorb RMDs
- Short remaining horizon & no heirs

BEST FIT

Pre-retirees and early retirees with sizeable pre-tax balances and a long view of legacy.

CRITICAL AGES

63 last year before IRMAA Medicare surcharge look-back begins

73 Required Minimum Distributions begin (75 if born 1960+)

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CHAPTER FOUR · STRATEGY

The multi-year *approach*

HOW IT WORKS

A multi-year conversion plan converts an annual amount calibrated to "fill up" a target tax bracket — typically the 12%, 22%, or 24% bracket — without pushing you into the next one. Repeated over five to ten years, the cumulative effect can move hundreds of thousands of dollars into the Roth at predictable rates.

LEVERS TO TUNE

· Target bracket each year

· Source of tax payment (outside cash)

· Roth account holding period

· Pairing with charitable giving

WATCH-OUTS

· IRMAA Medicare premium surcharges

· Capital gains rate bumps

· State income tax exposure

BEST FIT

Households with seven-figure pre-tax balances and a 5–10 year window before RMDs and Social Security stack on top of each other.

> *A one-time conversion is rarely optimal. A staged plan, sized to your bracket each year, almost always is.*

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CHAPTER FIVE

Pitfalls to *avoid*

Roth conversions are powerful — and unforgiving. The wrong move at the wrong age can wipe out years of expected benefit. Three traps are responsible for most of the damage.

I Paying the Tax From the IRA

Using converted dollars to cover the tax shrinks the Roth, may trigger an early-withdrawal penalty, and undermines the entire strategy. Always pay from outside cash if possible.

II Ignoring the 5-Year Rule

Each conversion has its own 5-year clock before earnings can be withdrawn tax-free. Converting late in life without planning around this rule can create unexpected tax on heirs.

III Triggering IRMAA & ACA Cliffs

A conversion that bumps Modified Adjusted Gross Income just over an IRMAA tier can add thousands in Medicare premium surcharges two years later — and ACA premium credits can disappear entirely.

A good conversion strategy is modeled in software, reviewed annually, and adjusted before December 31 — never after.

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CHAPTER SIX

Is a conversion right *for you?*

Five questions frame whether a Roth conversion belongs in your plan — and how aggressive it should be.

01
Today's Bracket
Are you in 12%, 22%, or 24% today?

02
Future Bracket
Will RMDs push you higher later?

03
Outside Cash
Can you pay the tax without touching the IRA?

04
Time Horizon
At least 5–10 years for the Roth to grow?

05
Legacy Goals
Heirs in high brackets or charity-focused?

THE DECISION, DISTILLED

IF YOU EXPECT HIGHER RATES LATER

Convert Strategically

Stage conversions across your low-income years to lock in today's rates and shrink future RMDs before they begin.

IF YOU EXPECT LOWER RATES OR HEAVY GIVING

Defer or QCD

Lean on Qualified Charitable Distributions and standard RMDs — there may be little to gain from accelerating the tax bill.

CHAPTER SEVEN

07

Risks, trade-offs & *compliance*.

A conversion is irrevocable — recharacterization was eliminated in 2018. That makes a sober look at the trade-offs essential before any dollar moves.

The Tax Is Real & Immediate

Every converted dollar is ordinary income this year. Cash flow, withholding, and estimated payments must be planned in advance.

Bracket & Surcharge Stack

Conversions interact with capital gains rates, NIIT, IRMAA, and ACA subsidies. A clean model is non-negotiable.

Legislative Risk

Future law could limit conversions, change bracket structure, or alter inherited Roth rules. Build in flexibility year by year.

Behavioral Risk

Paying tax today on a market high — and watching the account fall — tests discipline. A long horizon is required.

The difference between a Roth conversion that compounds for decades and one that quietly underperforms is almost always the quality of the annual review.

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CHAPTER EIGHT · NEXT STEPS

How Lally *helps*.

01 Model & *Project*

Build a multi-decade projection of taxes, RMDs, and IRMAA — with and without conversions.

02 Design *Annual Plan*

Set a target conversion amount each year sized to your bracket and goals.

03 Execute *End-to-End*

Coordinate custodian transfers, withholding, and CPA review before year-end.

04 Review *Yearly*

Re-model as markets, law, and your life evolve — and adjust before December 31.

BOOK A ROTH CONVERSION REVIEW

The next move is simply to *run the numbers*.

A Roth conversion plan is one of the highest-leverage decisions in retirement planning — and one of the easiest to get wrong without a clear, modeled view of the lifetime tax picture.

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Schedule a confidential Roth conversion review →

calendly.com/lallywealth/roth-conversion-review