

Episode #353 – Maximize Tax Efficiency with Roth Conversions and Annuities

Hello, and welcome to another episode of Money Script Money. My name is Sean Brady, and today's topic is Maximizing Tax Efficiency with Roth Conversions and Annuities. In today's retirement landscape, planning for the future can feel overwhelming. With an estimated 14.3 trillion dollars held in IRAs at the end of Quarter 1 2024, traditional IRAs have long been a staple for retirement savings. But since the introduction of Roth IRAs in 1998, there's been a powerful option that could help you keep more of your hard-earned money.

Roth conversions allow you to transfer funds from a traditional IRA to a Roth IRA. While you'll need to pay taxes on the amount you convert, this strategy can be a game changer—especially if you expect to be in a higher tax bracket during retirement. With a Roth IRA, your investments grow tax-free, and your withdrawals in retirement are also tax-free, offering significant long-term benefits.

When thinking about a Roth conversion, it's crucial to evaluate your tax situation from two angles:

1. What Will Your Future Tax Situation Look Like Without a Conversion? If you anticipate your income rising, a Roth conversion now could help lock in your current tax rate, potentially saving you money.

2. What Is Your Current Tax Situation with a Conversion? Understanding your present tax liabilities helps you make informed decisions.

Once you've considered these questions and believe that converting to a Roth IRA makes sense, there may be one more question: How will you pay for the increase in federal income taxes, all at once – or partially, over time? This question is essential because converting a traditional IRA to a

Roth IRA is taxable. “All at once” results in you paying all the federal income taxes due in the completion year of the conversion. Instead of converting your entire traditional IRA all at once—which could result in a hefty tax bill—consider a partial conversion strategy. This means converting smaller amounts over several years. Doing this can spread the tax burden and avoid jumping into a higher tax bracket. This thoughtful approach allows you to take control of your tax liabilities and keeps more of your income working for you.

Let’s talk about an often-overlooked tool that can enhance your Roth conversion strategy: fixed index annuities (FIAs). These financial products blend safety with growth potential, as they’re tied to stock market indices while protecting your principal from losses. Here’s how incorporating an FIA can elevate your retirement planning:

1. Tax-Free Lifetime Withdrawals: With an FIA, you can enjoy tax-free withdrawals in retirement, giving you a dependable income stream without increasing your taxable income.

2. Tax-Free Death Benefits: If you pass away, your beneficiaries can receive death benefits without incurring federal income taxes, ensuring the preservation of your legacy.

By combining Roth conversions with fixed index annuities, you manage tax liabilities while enhancing your financial security for retirement. This integrated approach allows you to tap into the benefits of both strategies, providing peace of mind and a solid plan for your future.

As you navigate your retirement options, consider the power of Roth conversions and the benefits of fixed index annuities. With careful planning and a strategic approach, you can maximize tax efficiency and ensure a comfortable and secure retirement. Remember, it’s all about keeping more of what you’ve earned and ensuring your money works as hard as you do. Contact your financial adviser today to see if this strategy suits you. Thank you, and we’ll see you next time on Money Script Monday.