IS NOW THE RIGHT TIME TO CONVERT TO A ROTH IRA?

Exploring the 2025 Outlook and What It Means for Your Retirement Strategy

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4 POINT FINANCIAL

As we navigate 2025, Roth IRA conversions are once again front and center in financial planning conversations. With interest rates stabilizing and potential changes to tax laws looming, many investors are asking the same question: Is now the right time to convert to a Roth IRA?
The answer? It depends—on your income, your tax bracket, your retirement goals, and your long-term strategy. Let's break it down.

WHAT IS A ROTH IRA CONVERSION?

A Roth IRA conversion involves moving funds from a traditional IRA (or other qualified retirement accounts) into a Roth IRA. While this move triggers a tax bill in the year of the conversion, the tradeoff is the ability to withdraw money tax-free in retirement—potentially a smart long-term move if taxes rise down the road.

Roth IRAs offer the benefit of tax-free income at withdrawal if applicable requirements are met. Withdrawals may be subject to taxes and penalties if made prior to age 59½ and the account has not been held for at least five tax years.

PROS OF CONVERTING TO A ROTH IRA IN 2025

1.Tax-Free Growth and Withdrawals

Once your money is in a Roth IRA, it grows tax-free—and qualified withdrawals during retirement are also tax-free. If you expect to be in a higher tax bracket later, this could offer major savings.

2.No Required Minimum Distributions (RMDs)

Traditional IRAs come with RMDs starting at age 73, but Roth IRAs do not. That means more flexibility and control over your retirement income and tax strategy.

3.Estate Planning Advantages

Roth IRAs can be a powerful estate planning tool, allowing heirs to receive tax-free distributions (subject to certain conditions), potentially preserving more wealth across generations.

4.Locking in Today's Tax Rates

With potential federal tax rate increases on the horizon, converting now could mean locking in relatively low rates before any policy shifts occur.

POTENTIAL DRAWBACKS TO CONSIDER

1.Immediate Tax Bill

The biggest con of a Roth conversion is the upfront tax hit. The amount you convert is treated as taxable income, which can bump you into a higher bracket if not planned carefully.

2.Timing Market Volatility

If your investments have recently appreciated, converting now could result in a higher tax bill. However, a market dip could create a more tax-efficient conversion opportunity.

3.Five-Year Rule

Each Roth conversion has a five-year holding period before earnings can be withdrawn tax-free. This rule adds complexity if you plan to tap into the funds early.

HOW INCOME AND TAX BRACKETS IMPACT THE DECISION

The amount you convert is added to your taxable income for the year, so it's important to understand your current tax bracket—and how much room you have before moving into the next one. For some, converting a portion of their IRA each year (known as a **strategic partial conversion**) may spread out the tax burden and keep you in a lower bracket.

If you're expecting a dip in income this year—due to retirement, a job change, or other factors—2025 could be an ideal window to convert at a lower tax rate.

Curious whether a Roth IRA conversion is right for you in 2025?

Let's take a closer look at your financial plan. Contact us today to schedule a personalized consultation.

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