Understanding the Pros and Cons of Roth Conversion

Why this strategy may – or may not – be right for you.

Are you thinking about converting your retirement savings to a Roth IRA? While it can be a smart move for some, it's important to weigh the pros and cons of Roth conversion before making a decision. Let’s explore some of the criteria that could make Roth conversions advantageous.

What is a Roth IRA?

A Roth IRA is a retirement account where you contribute after-tax dollars to your plan. When converting a pre-taxed account like a traditional IRA, 401(k), SEP or SIMPLE IRA to a Roth IRA from a tax-deferred account, income tax also must be paid on funds being transferred or converted. Because you have already paid taxes on these contributions, the Roth IRA distributions are tax-free after a five-year holding period and provided you are over 59 1/2.

Also, there are no Required Minimum Distributions for original Roth IRA holders (versus named beneficiaries), making Roth conversions appear attractive relative to a tax-deferred retirement account, where you face RMDs and must pay income tax on future withdrawals.

Pros of Roth Conversion

Tax-Free Withdrawals: Since you’ve already paid taxes on your contributions, withdrawals from a Roth IRA are tax-free after meeting certain conditions.

No Required Minimum Distributions: Original Roth IRA holders are not required to take RMDs, unlike traditional IRA holders.

Potential for Lower Taxes in Retirement: If you expect to be in a higher tax bracket in retirement, converting to a Roth IRA now could save you money in the long run.

Cons of Roth Conversion

Immediate Tax Liability: Taxes on funds transferred from a tax-deferred account to a Roth could be substantial, so you want to temper the tax liability as much as you can.

Potential for Higher Tax Bracket: The amount of funds you are converting could bump you into a higher tax bracket if they are all transferred in the same year.

Impact on Medicare Premiums: Higher income from a Roth conversion can increase your Medicare premiums.

Factors to Consider Before Converting

Roth Conversion Requires the Right Tax Conditions

Taxes on funds transferred from a tax-deferred account to a Roth could be substantial, so you want to temper the tax liability as much as you can.

“The decision to do a Roth conversion is partly based on considering whether you will come out ahead despite the initial tax outlay,” says wealth planner Lori Bensing. “Ideally, you want to do a conversion when your income is lower, and therefore, your marginal tax rate is lower.”

This can create a narrow window of time for a Roth conversion.

Early retirees with low or no income can be good candidates to do Roth conversions, especially if they haven’t started to take Social Security yet, says Bensing.

Income Levels and Timing

There may be other life stages where you move into a lower income tax bracket. Yet, even with lower income, the amount of funds you are converting could bump you into a higher tax bracket if they are all transferred in the same year. If this is the case, your Roth conversion may need to be planned out annually over several years.

“You need to be willing to commit to a multiyear process,” says wealth planner Andrew Band. “Otherwise, a conversion in one year can move your marginal tax rate up substantially.”

A multiyear process for conversion can also help prevent higher Medicare premiums, which rise much like taxes after your income passes certain thresholds. During the conversion process, work with a tax professional and your planner to help manage your tax liabilities, which may involve postponing certain tax events, like selling your home.

Roth conversions may also result in lowering future traditional IRA RMDs. Since the age for first year RMDs has been extended, you potentially have a bit more time to spread out these conversions to age 73.

Longevity and Financial Goals

In addition to the time that the conversion itself takes, the converted funds may need to sit in the Roth account for years before posting gains that put you financially ahead of where you would have been had you left the funds in a tax-deferred account.

Another consideration: your life expectancy.

“You need to make a calculation about your longevity that allows for enough time to recoup in the market what you lost initially from paying taxes upfront,” says Band.

How to Pay Taxes on the Conversion

Before worrying about recouping the taxes triggered by a Roth conversion, you need the money to pay for the taxes themselves.

We generally advise against using funds from your retirement accounts to pay for the taxes as that could leave you with less retirement income in the long run. If you use money from retirement accounts to pay the taxes (including penalties if you are converting before age 59 1/2), you won't benefit from any investment growth that money may have had.

Given the amount of savings that may be required to pay for a Roth conversion, this requirement itself may be a deal breaker – or at the very least, it may mean a conversion doesn't provide a large enough advantage.

Don't forget the other criteria for a Roth conversion, as well, such as managing your tax liabilities and not needing the funds for at least five years, and perhaps much longer to recoup the tax impact.

A Roth Backdoor for High Earners

If you're mulling a Roth conversion in your 50s or older, when your income may be near its peak, does that mean you shouldn't convert?

"It depends," says wealth planner Paul Dau. "The strategy of converting to a Roth from an after-tax 401(k) is not as well known as it should be for high-income earners, provided they have access to an after-tax 401(k)," Dau says.

Companies are increasingly offering after-tax 401(k)s in addition to traditional 401(k)s and Roth 401(k)s. Like a Roth, you pay income taxes upfront on all your contributions to an after-tax 401(k). While you can withdraw after-tax 401(k) contributions tax-free at any time, you will have to pay taxes on the investment growth, even in retirement.

But it does offer a backdoor to a Roth conversion. You can transfer your contributions from an after-tax 401(k) to a Roth IRA while you're still employed at the firm without it being a taxable event, provided your company's plan allows for it.

However, you will need to roll over the earnings of the after-tax account to a separate traditional IRA to avoid paying taxes on those. If your plan does not allow you to roll over earnings directly to an IRA, you may end up getting a check for the growth on which you will owe taxes.

Moreover, Dau says as a reminder: "As a high-income earner, you want to max out your traditional 401(k) to lower tax liability as that income is not taxable that year."

If you consider this strategy, you should review your 401(k) plan's distribution terms and consult with a tax professional along with your planner to determine if the strategy makes financial sense.

Consult with a Financial Planner

To better understand the impact a Roth conversion will have on your retirement and your overall finances, please consult with both a tax professional and your financial planner.

Article published: March 14, 2025 on edelmanfinancialengines.com

Note: Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA.