Abstract

The tax code permits the conversion of IRA funds to a Roth IRA provided that personal income taxes are paid on the IRA distributions. Common motivations for IRA to Roth IRA conversions are to increase retirement disposable income, insure against future tax increases, and allocate retirement savings to minimize combined taxes for retirees and their heirs. This paper quantitatively assesses the financial consequences of making conversions with respect to these motivations.

Our laboratory was a linear programming retirement planning calculator that, given a set of assumptions and constraints, computes retirement cash flow that maximizes disposable income by minimizing taxes and maximizing compounded asset returns. Disposable income is our metric for evaluating different assumptions, such as doing or not doing conversions.

Our results are that partial conversions early in the optimal plan increases disposable income by around 1% in most situations. Conversions reduce total income taxes paid by 19% as it shifts taxes from later in retirement to early in retirement. Pre-positioning savings for inheritance purposes can be accomplished with minor reductions in disposable income.

*Keywords:* retirement planning, Roth IRA, tax-deferred savings, linear programming, optimal spending plan, retirement spending, retirement disposable income, IRA to Roth IRA conversions
Introduction

The objective of retirement planning is to maximize disposable income\(^2\) from all sources; Social Security benefits, pensions, sale of illiquid assets, and the distribution of retirement savings (liquid assets) while staying within the confines of tax law. Retirees have little control over Social Security benefits and pension income because they are fixed at the start of retirement. In contrast, retirement savings distributions are at the retiree’s discretion. It is in the retiree’s interest to maximize disposable income by minimizing personal income taxes on savings distributions while maximizing compounded returns on retirement savings. Because tax-deferred account distributions are subject to personal income taxes a suboptimal distribution schedule will decrease disposable income.

We assume three retirement savings accounts:

1. **Tax-deferred account (IRA)**\(^4\) contributions from wages are exempt from personal income taxes. Distributions are taxed as personal income. After age 70½ IRA distributions are forced by the IRS’s Required Minimum Distribution (RMD). The RMD is designed to distribute the IRA evenly over retirement and enable the IRS to collect taxes on those distributions. The RMD is recomputed annually as a function of the IRA balance on December 31 and the IRS estimate of the life expectancy of the retiree.

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\(^2\) Disposable income is the money available for personal consumption after taxes have been paid.

\(^4\) We refer to the collection of tax-deferred accounts as the IRA
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2. **Roth IRA (Roth)** contributions from wages are subject to personal income taxes. Asset returns and distributions are not taxed. The Roth has no RMD.

3. **After-tax Account** contributions can be from any source and are assumed to be already taxed as appropriate. Profits are taxed as incurred. Distributions are not taxed, i.e. distributions are after-tax. The literature frequently uses the term **taxable account** for what we call the After-tax Account. In our view all accounts are taxable because they are taxed either as money enters the accounts or as it is distributed.

Retirement savings are the sum of the account balances for these three accounts.

Federal and state tax codes permit the **IRA to Roth conversion** of funds providing that personal income taxes are paid on the IRA withdrawals that are converted to Roth savings.

Motivations for making IRA to Roth conversions include:

1. Increase retirement disposable income.

2. Pre-position savings in the retiree’s estate to reduce the heirs’ personal income tax liability.

3. Preserve tax advantaged savings for heirs by circumventing the IRA’s RMD.

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5 We use the term “Roth” to designate the Roth IRA savings account.
6 What we are calling the After-tax Account is referred to as the taxable account in some sources. We prefer After-tax because all three accounts are taxed; during accumulation, during compounding, or during distribution.
7 This simplifying assumption is more accurate for mutual funds than common stocks. Mutual Funds owners pay capital gains annually whereas capital gains on stocks are paid when the stocks are sold. Since the after-tax account is the first to be depleted in most optimal plans we assume the difference is not significant in the overall retirement picture.
9 RMD: The Required Minimum Distribution is an amount that the IRS requires be withdrawn from the IRA annually beginning at the age of 70½. It is computed as the IRA balance on December 31 of the previous year.
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4. Insure against personal income tax rate increases during retirement.

This paper focuses on motivations 1 through 3. Motivation 4 is not considered because future personal income tax changes are likely to be rate increases in the upper brackets which are not a factor in our scenarios where taxable income is in the lower brackets. For planning purposes projecting the current progressive tax structure into the future is a valid assumption.

We are reporting on computational experiments, each with two components:

1. **No Conversion Option (NCO)** is a retirement plan in which IRA to Roth conversions are not enabled.

2. **Conversions Enabled Option (CEO)** is a retirement plan in which partial IRA to Roth conversions are allowed during retirement.

We compare the difference in annual retirement disposable income between NCO and CEO.

Our laboratory was the **Optimal Retirement Planner (ORP)**\(^{10}\), a linear programming (LP) based retirement calculator that maximizes retirement disposable income by minimizing income taxes on savings account withdrawals and other sources of income. ORP maximizes disposable income for the first year of retirement and, by the **constant income assumption**, subsequent income values are this value indexed to compounded inflation. ORP computes the values of several variables which are pre-specified assumptions by the **simulators**

\(^{10}\) ORP is available on the Internet without registration or fee at www.i-orp.com

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\(^{10}\) ORP is available on the Internet without registration or fee at www.i-orp.com
commonly used in retirement planning. These assumptions include the number, size, and timing of partial conversions. ORP schedules partial conversions early in retirement\(^{11}\) at a level and duration that maximizes disposable income. Conversions increase taxes in the year in which they occur but reduce taxes paid later in retirement when Roth distributions provide disposable income. ORP will include conversions only when they increase disposable income. For example, ORP will pursue conversions if the Roth Rate of Return (ROR\(^{12}\)) is greater than the IRA ROR and avoid conversions if the opposite is true. A onetime conversion of the entire IRA during the first year of retirement is technically feasible, sometimes practiced, but rarely part of an optimal plan.

We find that in comparing two optimal plans, differing only in whether or not conversions are allowed, that there is in the neighborhood of a 1% improvement in the conversion plan’s disposable income compared to the non-conversion plan. In the next section we review the literature concerned with quantitative evaluation of conversions. We begin our evaluations by examining the details of a typical conversion and its effect on the big picture. Then a sensitivity analysis compares the disposable income consequences of varying plan assumptions. Next we study the financial consequences of prepositioning account balances for inheritance purposes. We conclude with some summary remarks.

\(^{11}\)As a simplifying assumption we do not model conversions before retirement begins.

\(^{12}\)ROR: The Rate of Return is the profit on an investment expressed as a percentage of investment’s nominal value.
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Literature Review

The literature and popular press are rife with advice on how and when to do IRA to Roth conversions. There is very little published that quantifies the consequences of conversions.

Clayton, Davis and Fielding [2012] developed a simulator that applied the Monte Carlo method to determine the break-even age of conversions using randomized RORs. They conclude that the conversion decision is a function of current vs future tax rates. If future tax rates are less than current tax rates then conversions offer no advantage. If future tax rates are projected to be greater than current tax rates then conversions should be considered.

LP is a useful method of modeling retirement cash flow. The computation of progressive Federal income taxes and the RMD is a natural fit for an LP model. LP schedules withdrawals from the three savings accounts in a manner that minimizes income taxes while at the same time maximizing asset return compounding. The retirement planning LP models in the literature maximize Final Total Account Balance (FTAB)\textsuperscript{13} for a specified level of disposable income. In other words, disposable income is fixed and the FTAB is used to measure the performance of the model.

Ragsdale, Seila and Little [1993] modeled retirement cash flow with an LP model. They demonstrated that their LP optimal withdrawal plan is superior to two heuristic withdrawal methods. Their model fixed the withdrawal rate and maximized the FTAB. They computed personal income taxes on withdrawals, met the RMD, minimized the Excess Distribution Penalty

\textsuperscript{13} Final Total Account Balance is the sum of all three savings accounts at the planning horizon. FTAB is the planned estate at the planned end.
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(no longer a feature in the tax code), and minimized estate taxes. They modeled two IRAs with
different RORs and concluded that distributing the lower performing IRA first is optimal.

Coopersmith and Sumutka [2011] developed an LP retirement planning model that
scheduled withdrawals from the IRA and After-tax Account in a tax efficient way that
maximized the FTAB. They found that the LP results were superior to the common practice,
which is to deplete the After-tax Account first, deplete the IRA next, and finally the Roth. Their
implementation computed personal income taxes on IRA withdrawals plus Social Security
benefits, satisfied the RMD, transferred RMD distributions in excess of spending to the After-
Tax Account, and minimized estate taxes. They showed improvement over common practice for
situations where the After-tax ROR is greater than the tax-deferred ROR, the initial After-tax
balance is greater than 10 percent of total retirement savings, and itemized deductions are greater
than the standard deduction. Their paper includes the equations that comprise their LP
implementation.

In an earlier paper [Welch 2015] we reported an LP implementation (ORP) that extended
this prior work by:

- Fixing the FTAB and maximizing disposable income,
- Modeling all three retirement savings accounts,
- Implementing IRA to Roth conversions,
- Adding other sources of taxable income to the model, such as pensions
  and earnings from post retirement employment.
We showed that the LP approach computed disposable income schedules that were 3% to 34% larger than a common practice simulator. We demonstrated the implementation’s credibility by showing its internal consistency and by comparing its income schedules to those published by other researchers using the Monte Carlo method.

**Baseline Scenario**

In this section we define our **baseline scenario (Baseline)**, solve it for NCO and CEO, and examine the details of the optimal plans generated by the LP.

**Baseline Definition**

The Baseline is for a single, 66 year old retiree, just beginning retirement, with one million dollars in savings. The IRA contains $750,000 and the After-tax Account balance is $250,000. There is no initial Roth balance. The only restriction on creating a Roth IRA account for conversions is the minimum initial contribution required by some companies [Kitces 2015].

The retiree has a $23,000 Social Security **Primary Insurance Amount (PIA)**\(^\text{14}\). The retiree plans to begin Social Security benefits at her **Full Retirement Age (FRA)**\(^\text{15}\) of 66, her current age. 85% of Social Security benefits are subject to personal income taxes.

\(^{14}\) The Principle Insurance Amount (PIA) is the amount of Social Security benefits for which the retiree is eligible at FRA.

\(^{15}\) Full Retirement Age (FRA) is the age at which a person first becomes entitled to full or unreduced Social Security benefits. Benefits begun before the FRA are penalized by .5% per month. Benefits begun after the FRA receive an 8% per year bonus.
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We assume a 6% ROR on all savings accounts, 2.5% inflation, age 92 planning horizon, and a zero FTAB, i.e. savings will be depleted, at the planning horizon. We used the 2015 Federal income tax tables.

**Baseline Evaluation**

We solved Baseline formulated as an LP model with no conversions (NCO) and with conversions enabled (CEO) to measure the economic advantage of doing IRA to Roth conversions. We examine the resulting distribution schedules to compare the dynamics of the optimal solutions for the two cases.

**Distributions and Income**

The Baseline results are that NCO’s maximum initial disposable income is $69,541 vs $70,004 for CEO. Initial disposable income is the maximum amount available for personal consumption in the first year of retirement. This gives a 0.7% economic advantage to enabling conversions. Lifetime NCO disposable income was $2,504,275 compared to $2,520,975 for CEO.

Figure 1 charts the savings account balances over retirement with and without conversions.
Assumptions
- Baseline scenario.
- Y-axis is savings balance in thousands of dollars ($000)

Discussion
- Initial account balances at age 66 reflect that the first year distributions have already been made.
- In the CEO case the steep rise in the Roth balance before the age of 70 indicates conversions while the After-tax distributions satisfy disposable income.
- The balances for all accounts go to zero at the end because of the zero FTAB requirement.

The NCO panel reflects but does not closely follow the common practice of depleting the After-tax Account before distributing the IRA. In the beginning, disposable income requirements are satisfied from the After-tax Account plus Social Security while the IRA continues to appreciate through the compounding of IRA assets.

The CEO panel shows the Roth playing a significant role in the plan. The IRA balance falls right from the start as funds are converted to the Roth while the After-tax Account is distributed. The After-tax Account is fully depleted by age 70 but the Roth is available to supplement IRA distributions.
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Figure 2 demonstrates savings distribution schedules for Baseline with and without conversions.

**Figure 2: Baseline Income and Distributions**

**Assumptions:**
- Baseline, same test as Figure 1.
- Y-axis is in thousands of dollars ($000)

<table>
<thead>
<tr>
<th>Age</th>
<th>NCO</th>
<th>CEO</th>
</tr>
</thead>
<tbody>
<tr>
<td>66</td>
<td></td>
<td></td>
</tr>
<tr>
<td>68</td>
<td></td>
<td></td>
</tr>
<tr>
<td>70</td>
<td></td>
<td></td>
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<tr>
<td>72</td>
<td></td>
<td></td>
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<tr>
<td>74</td>
<td></td>
<td></td>
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<tr>
<td>76</td>
<td></td>
<td></td>
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<tr>
<td>78</td>
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<td>80</td>
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<td>88</td>
<td></td>
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</tr>
<tr>
<td>90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>92</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Discussion:**
- The upper panels show disposable income and the optimal schedule of savings distributions.
- Social Security benefits are shown indirectly as the gap between savings distributions and income. CEO’s IRA withdrawals exceed disposable income when taxes are paid out of IRA distributions.
- The lower panels show income subject to income taxes (IRA withdrawals plus 85% of Social Security benefits) distributed across the Federal income tax brackets. The tax brackets are shown to the right.
- Before age 70, while the After-tax Account is meeting disposable income needs, the CEO panels show IRA distributions for conversions plus Social Security benefits to be in the $100,000 range.
Early in retirement, in the NCO panels, disposable income and IRA distributions are optimized to put taxable income at the top of the 15% bracket but no higher. At age 79, when the After-tax account is depleted, IRA distributions are increased to keep taxable income at the top of the 25% tax bracket, but no higher.

The CEO panels show IRA and After-tax total distributions to be twice disposable income. At the age of 70, when accelerated distributions deplete the After-tax account, parallel distributions from the IRA, Roth and Social Security benefits maintain constant income.

In Figure 2 NCO shows significantly more money being taxed in the 15% bracket than does CEO because tax bracket upper bounds are indexed to inflation.

Despite rearranged IRA distributions and differences in taxes paid, NCO and CEO have similar disposable income graphs across retirement. This is consistent with initial income difference being less than 1% and the constant income assumption.

**Taxes Paid**

Figure 3 compares NCO and CEO taxes paid annually and cumulative.
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Before age 77 both options support income from the After-tax Account, where distributions are not taxed. NCO has smaller IRA distributions and thus lower taxes. CEO is paying higher taxes because of conversions. At age 77, for NCO, the IRA is the principal income provider and taxes go up accordingly. CEO IRA distribution and taxes are reduced as the Roth begins distributions.

NCO and CEO cumulative taxes take two different paths with trajectories changing at age 77. NCO total taxes paid end up 19% higher than CEO.

**Figure 3: Nominal Taxes Paid**

<table>
<thead>
<tr>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline scenario, same as Figure 1 and Figure 2</td>
</tr>
<tr>
<td>Y-axis is in thousands of dollars</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Annual Taxes</th>
<th>Cumulative Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Graph of Annual Taxes" /></td>
<td><img src="image" alt="Graph of Cumulative Taxes" /></td>
</tr>
</tbody>
</table>

**Discussion**
- The left panel shows taxes paid each year of the plan for the two options.
- The right panel shows cumulative taxes paid.
Sensitivity analysis is the changing of one Baseline assumption at a time and measuring the effect that the change produces on income. Table 1 summarizes a set of trials each with a different Baseline assumption value changed. Each trial computes NCO and CEO maximum disposable incomes in thousands of dollars and compares the percent difference shown in the Benefit column.

<table>
<thead>
<tr>
<th>Assumption</th>
<th>NCO</th>
<th>CEO</th>
<th>Benefit</th>
<th>Description of Modified Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline</td>
<td>70</td>
<td>70</td>
<td>0.7%</td>
<td>Baseline: 6% ROR, 2.5% inflation, 0 FTAB.</td>
</tr>
<tr>
<td>Accounts</td>
<td>67</td>
<td>67</td>
<td>0.0%</td>
<td>$1M IRA, 0 Roth, 0 After-tax.</td>
</tr>
<tr>
<td>Accounts</td>
<td>74</td>
<td>74</td>
<td>0.0%</td>
<td>$400K IRA, $350K Roth, 250K After-tax.</td>
</tr>
<tr>
<td>Earned Income</td>
<td>85</td>
<td>86</td>
<td>0.3%</td>
<td>Earn $100,000 annual income until age 70.</td>
</tr>
<tr>
<td>FTAB</td>
<td>68</td>
<td>68</td>
<td>0.8%</td>
<td>$100,000 Final Total Account Balance.</td>
</tr>
<tr>
<td>Illiquid Asset</td>
<td>79</td>
<td>79</td>
<td>0.4%</td>
<td>$400,000 house sold at age 85.</td>
</tr>
<tr>
<td>Inflation</td>
<td>83</td>
<td>83</td>
<td>0.4%</td>
<td>0% inflation rate.</td>
</tr>
<tr>
<td>Inflation</td>
<td>41</td>
<td>41</td>
<td>0.5%</td>
<td>10% inflation rate.</td>
</tr>
<tr>
<td>Large Savings</td>
<td>157</td>
<td>158</td>
<td>0.6%</td>
<td>Initial Savings $3M</td>
</tr>
<tr>
<td>Large Savings</td>
<td>283</td>
<td>285</td>
<td>0.8%</td>
<td>Initial Savings $6M</td>
</tr>
<tr>
<td>Large Savings</td>
<td>442</td>
<td>449</td>
<td>1.6%</td>
<td>Initial Savings $10M</td>
</tr>
<tr>
<td>Longevity</td>
<td>92</td>
<td>93</td>
<td>0.4%</td>
<td>Plan ends at age 80.</td>
</tr>
<tr>
<td>Longevity</td>
<td>63</td>
<td>64</td>
<td>1.0%</td>
<td>Plan ends at age 100.</td>
</tr>
<tr>
<td>Pension</td>
<td>127</td>
<td>127</td>
<td>0.3%</td>
<td>$100,000 annual pension</td>
</tr>
<tr>
<td>Retire Early</td>
<td>53</td>
<td>53</td>
<td>1.0%</td>
<td>Retire at the age of 55.</td>
</tr>
<tr>
<td>ROR</td>
<td>53</td>
<td>53</td>
<td>0.3%</td>
<td>2% Rate of Return on Retirement Savings</td>
</tr>
<tr>
<td>ROR</td>
<td>89</td>
<td>90</td>
<td>0.6%</td>
<td>10% Rate of Return on Retirement Savings</td>
</tr>
<tr>
<td>Soc Sec</td>
<td>61</td>
<td>62</td>
<td>1.1%</td>
<td>Begin Social Security at age 62</td>
</tr>
<tr>
<td>Soc Sec</td>
<td>70</td>
<td>71</td>
<td>0.6%</td>
<td>Begin Social Security at age 70</td>
</tr>
<tr>
<td>State Tax</td>
<td>65</td>
<td>65</td>
<td>0.7%</td>
<td>$4,300 exemption and 9% state tax rate.</td>
</tr>
</tbody>
</table>

Discussion
- The NCO and CEO columns contain disposable income in thousands of dollars ($000).
Benefit values are the percent difference between CEO disposable income over NCO disposable income. (CEO income – NCO income)/NCO income.

ORP makes conversions so long as the marginal benefit of increasing the Roth balance exceeds the marginal cost of slipping into the next higher income tax bracket.

Pre Positioning of Savings in Retirement Accounts

A common motivation for employing IRA to Roth conversions is to arrange savings so that the retiree and heirs pay a minimum of combined income taxes. A second violist in the Dayton Symphony is going to have a low income relative to his sister the cosmetic surgeon in Beverly Hills, or even to the retiree. The violist’s portion of retiree’s bequest is best left in the IRA because his distributions will fall into his low tax bracket, as compared to the retiree. His sister, the surgeon, is better off receiving a Roth from the estate with the retiree bearing the income tax burden of conversion while the surgeon’s subsequent distributions are tax free [Potts and Reichenstein 2015].

Modeling the heirs’ income taxes is beyond the scope of our study. Assuming that the retiree knows how she wants to divide up her bequest our interest is to measure the financial consequences of shifting part of the FTAB from the IRA, where the optimal solution will normally leave it, to the Roth for the heirs’ benefit.

We address this issue by specifying a Minimum Roth Balance (MRB) that is carried in the Roth throughout retirement and to the FTAB. The MRB and FTAB are indexed to inflation. Since the After-tax Account is distributed early in retirement normally only the IRA will contain
any remaining FTAB balance. Leaving the FTAB in the IRA is optimal, from the retiree’s perspective, because it defers the paying of income taxes on IRA distributions to the heirs.

Because of the uncertainty as to when the retiree’s last will and testament will actually be read the retiree’s estate at any age is the total of all three savings accounts. The MRB will be part of that estate throughout retirement.

To establish the MRB the initial IRA to Roth conversion is made during the first year of retirement. Additional partial conversions may cause the Roth balance to rise substantially above the MRB during the course of the plan. Roth distributions cannot take the Roth balance below the MRB.

Positioning funds for the FTAB reduces disposable income during retirement because income taxes on the one-time, initial conversion reduces disposable income.

Comparison of Prepositioning Plans

In this section we evaluate the results of applying different FTAB Options through manipulation of the MRB. With MRB as the independent variable we consider four cases: the Baseline plus three FTAB Options:

1. Baseline: The FTAB is fixed at $100,000. IRA to Roth conversions are not allowed. There is no MRB.

2. All-IRA: The MRB is zero, conversions are enabled, and the Roth balance can take on its optimal level. The All-IRA Option is the same as FTAB case in Table 1.
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3. **50%-Roth**: The MRB is $50,000, or 50% of the planned $100,000 FTAB. ORP leaves the remainder in the IRA.

4. **All-Roth**: The entire $100,000 FTAB will be in the Roth and there will be no IRA balance in the FTAB.

All three Options allow conversions as part of retirement cash flow as well as funding the Roth.

Table 2 summarizes initial disposable income and taxes paid by the Options as compared to the Baseline.

<table>
<thead>
<tr>
<th>Assumptions</th>
<th>Option</th>
<th>Income</th>
<th>Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baseline scenario with a $100,000 FTAB, no conversions.</td>
<td>All IRA</td>
<td>0.8%</td>
<td>-28.6%</td>
</tr>
<tr>
<td>MRB is the independent variable.</td>
<td>50% Roth</td>
<td>0.3%</td>
<td>-26.7%</td>
</tr>
<tr>
<td>All Options permit IRA to Roth conversions.</td>
<td>All Roth</td>
<td>-0.1%</td>
<td>-25.0%</td>
</tr>
</tbody>
</table>

Discussion
- **Option** identifies the allocation of the Roth balance in the FTAB.
- **Income** is the percent difference of the Option’s initial disposable income and the Baseline’s initial disposable income. A positive income value indicates increased disposable income compared to Baseline.
- **Taxes** is the percent difference of the Option’s total taxes and the Baseline’s total taxes. A negative value indicates that the Option reduces total taxes paid.
- The IRA to Roth conversion that funds the MRB occurs in the first year of retirement.

The All-IRA Option makes use of conversions to increase disposable income but there is no Roth IRA component to its FTAB. The FTAB stays in the IRA to avoid taxes on distributions.
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The lower two rows of the income column show that there is a cost to forcing the MRB into the FTAB. Adjusting the composition of the FTAB forces the solution away from the true optimum by increasing taxes paid, thereby reducing maximum disposable income. The additional cost is born by the retiree, every year of retirement in the form of reduced disposable income.

The tax percentages are negative, i.e. total taxes paid by the Options are less than for the Baseline. Conversions early in retirement reduce the size of the IRA, which in turn lowers IRA asset return compounding, which further reduces IRA distribution, which, in the end, reduces the IRA distribution taxes even further. Conversions increase the size of the Roth, whose distributions are not taxed. The large tax reductions are consistent with the 19% reduced taxes shown in Figure 3.

Conclusion

1. The CEO distribution of savings schedule is radically different from NCO’s.
   NCO pays taxed late in retirement, CEO pays them early (Figure 2).

2. Sensitivity analysis, i.e, modifying base scenario assumptions, shows that IRA to Roth conversion increase disposable income by zero to 1.5% (Table 1).

3. IRA to Roth conversions protect against future tax increases by reducing the portion of retirement savings subject to income taxes later in retirement (i.e.the IRA). The open issue is how much of a projected tax increase and to which tax brackets, warrant conversions.
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4. Directing savings to the Roth with the intention reducing the tax burden for the heirs incurs a reduction in the retiree’s annual disposable income. (Table 2)

5. The decision to convert or not to convert may be influenced by external factors beyond maximizing disposable income. If the retiree is retiring into a down stock market it would intuitively seem a prudent time make large IRA withdrawals in spite of paying income taxes. The state of the market is, of course, reflected in the depressed retirement savings account balances. It would seem desirable to convert when asset prices are depressed because there is less tax paid and the state of the market is amenable to a recovery. Following the same logic, converting when asset prices are inflated would seem imprudent.
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References


