



Do Roth Conversions Satisfy Required Minimum Distributions?

As the likelihood of higher tax rates increases, many proactive investors are looking to the Roth Conversion as a way to protect their retirement assets. As they do so, one question sometimes arises: Does the amount that you convert to a Roth IRA count towards the Required Minimum Distribution? The short answer is no.

Let me illustrate with an example: Let's say you want to shift \$30,000 from your IRA to your Roth in a given year. Let's also say that in that same year, you have a Required Minimum Distribution of \$20,000. Before you can do any Roth Conversions, you are required to first take your \$20,000 RMD. Once received, you can then proceed with your Roth Conversion. Remember, however, that both the conversion and the RMD are taxable events, so be prepared to pay taxes on an additional \$50,000 of income. If this is too pricey, you can still do a Roth Conversion, but perhaps at a lower amount.

What typically becomes of the \$20,000 RMD, especially if you don't need it for lifestyle purposes? In many cases, these RMDs get deposited into some sort of taxable account. So, that \$20,000 moves from an environment where it only gets taxed once, upon distribution, to an environment where the growth gets taxed each and every year. Doing this only creates more imbalance in your buckets and may lead to increasing your tax liability. So, instead of depositing this into your taxable bucket, contemplate using it to pay taxes on your conversion, fund a Roth IRA, or fund a life insurance program that has long-term care benefits.

For more insight on this topic, read the following Time article:

<http://time.com/money/3835309/retirement-required-minimum-distribution-roth/>

We look forward to hearing from you!

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P.S. Please feel free to forward this commentary to family, friends, or colleagues. If you would like us to add them to the list, please reply to this e-mail with their e-mail address and we will ask for their permission to be added.

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