

# Volatile markets create Roth IRA conversion opportunities

As stocks dip this year, some investors are taking advantage of the market volatility by converting their traditional pre-tax IRAs to a Roth IRA. Why? Because the decline in the current market value of the Traditional IRA means a reduced tax liability upon conversion.

## How a Roth IRA works

Roth IRAs are similar to traditional IRAs except that Roth contributions are “after-tax,” which means you pay taxes on your contribution upfront. Consequently, withdrawals from Roth IRAs are tax-free, meaning that your investment earnings and growth are never taxed. Traditional pre-tax IRA contributions are not taxed upfront, so they can help you reduce your current taxable income, and are taxed when you take a distribution from the account. Depending on your situation, a Roth may create significant value for you and your heirs.

Unfortunately, high earners often assume they are ineligible for a Roth IRA, but this is not necessarily true. Even though you may not be eligible to contribute directly to a Roth IRA, you may be able to convert a traditional pre-tax IRA into a Roth IRA.

Generally, only taxpayers with income below certain levels may contribute to a Roth IRA. In 2022, individuals with income less than \$144,000 and married couples filing jointly with income of \$214,000 or less are eligible.<sup>1</sup>

## Key advantages of a Roth IRA

- The ability to withdraw money tax-free, including the earnings. This appeals to anyone who wants to minimize their tax bite in retirement or believes that taxes will be higher later than they are now.
- There are no annual required distributions from a Roth IRA (as there are for a traditional IRA).
- The ability for wealthier taxpayers to maximize assets and minimize taxes for their heirs. A spouse inheriting their partner's Roth is not required to take mandatory distributions, while non-spouse beneficiaries must take distributions within the first ten years after the original owner's death. In either case, all distributions are withdrawn tax free.

## How to convert to a Roth IRA

All taxpayers, regardless of income, can convert some or all of their traditional pre-tax IRAs to a Roth IRA. During a “Roth conversion,” you elect to pay income taxes now on a portion of your pre-tax accounts. These amounts are then transferred into a Roth IRA account, where they are treated as a regular after-tax Roth IRA. Additionally, during a Roth conversion, income taxes are only calculated on the pre-tax conversion amount. Non-deductible “basis” is not included in the tax calculation, and there are no additional penalties for those younger than 59½.

## Why now might be a good time for a Roth

This strategy may be particularly valuable in today's market conditions. In difficult economic periods, such as the current volatile market, the value of your pre-tax traditional IRA may have declined. By converting a portion of this account to a Roth, you may pay taxes on a smaller market value. As your portfolio recovers, the Roth IRA and all future growth will be forever tax-free.

Today's market volatility presents the perfect time to discuss whether converting your traditional IRA to a Roth makes sense based on your unique circumstances. We can discuss eligibility requirements, the pros and cons of a conversion, and the potential benefits of a Roth IRA for intergenerational wealth transfer.

As always, please reach out to your wealth advisor if we can assist with your understanding of whether a Roth might make sense for you when viewed as part of your overall long-term financial plan.

**Mesirow does not provide legal or tax advice.** Past performance is not indicative of future results. The views expressed above are as of the date given, may change as market or other conditions change, and may differ from views expressed by other Mesirow associates. This is not a solicitation to buy or sell the securities mentioned. Do not use this information as the sole basis for investment decisions, it is not intended as advice designed to meet the particular needs of an individual investor. Information herein has been obtained from sources which Mesirow believes to be reliable, we do not guarantee its accuracy and such information may be incomplete and/or condensed. All opinions and estimates included herein are subject to change without notice. This communication may contain privileged and/or confidential information. It is intended solely for the use of the addressee. If you are not the intended recipient, you are strictly prohibited from disclosing, copying, distributing or using any of the information. If you receive this communication in error, please contact the sender immediately and destroy the material in its entirety, whether electronic or hard copy. This material is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc. ©2024, Mesirow Financial Holdings, Inc. All rights reserved. Any opinions expressed are subject to change without notice. Past performance is not indicative of future results. Advisory Fees are described in Mesirow Financial Investment Management, Inc.'s Form ADV Part 2A. Advisory services offered through Mesirow Financial Investment Management, Inc. an SEC registered investment advisor. Securities offered by Mesirow Financial, Inc. member FINRA and SIPC.