

Roth IRA Conversions



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As financial advisors, one of the strategies that we often recommend to our clients is a Roth conversion. A Roth conversion is the process of converting funds from a Traditional IRA or 401(k) into a Roth IRA. While this process can involve some upfront costs, there are several key benefits that can make a Roth conversion a smart move for many investors. Here are some of the benefits of a Roth conversion:

Tax-Free Distributions

One of the primary benefits of a Roth conversion is that it allows you to potentially receive tax-free distributions in retirement. Unlike Traditional IRAs and 401(k)s, Roth IRAs allow you to withdraw funds tax-free in retirement, assuming you meet certain qualifications. This can provide significant tax savings in retirement, especially if you expect to be in a higher tax bracket than you are currently.

No Required Minimum Distributions

Another benefit of a Roth conversion is that there are no required minimum distributions (RMDs) with Roth IRAs. With Traditional IRAs and 401(k)s, you are required to take RMDs beginning at age 73, whether you need the money or not. By converting to a Roth IRA, you can potentially avoid RMDs altogether and maintain more control over your retirement income.

Diversification of Retirement Income

By converting to a Roth IRA, you can also diversify your retirement income sources. By having some of your

retirement income in a Roth IRA, you can potentially reduce your tax liability in retirement and have more flexibility in managing your income streams.

Estate Planning Benefits

A Roth conversion can also provide estate planning benefits. Roth IRAs are not subject to income taxes when passed on to beneficiaries, which can help reduce the tax burden on your heirs. This can also help ensure that your assets are distributed according to your wishes.

Flexibility in Timing

Finally, a Roth conversion provides flexibility in timing. You can choose to convert all or a portion of your Traditional IRA or 401(k) funds to a Roth IRA at any time, depending on your personal financial situation and tax bracket. This can allow you to take advantage of lower tax rates or maximize your retirement income in a tax-efficient way.

In conclusion, a Roth conversion can provide significant benefits for many investors, including tax-free distributions, no required minimum distributions, diversification of retirement income, estate planning benefits, and flexibility in timing. As a financial advisor, I can help you evaluate whether a Roth conversion makes sense for your individual financial situation and provide guidance on how to best implement this strategy.

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