

ROTH CONVERSIONS

Why the Opportunity Cost Argument is Invalid

Some people believe there is a lost opportunity cost by doing a Roth conversion—that the funds used to pay the conversion tax could have been otherwise invested, and that investment return opportunity is lost.

False: It's all about the tax rates

There is **NO** opportunity cost in terms of lost investment gains *if the tax rates are the same* both at conversion and later at distribution. Let's look at the math:

NO ROTH CONVERSION	WITH ROTH CONVERSION
\$100,000 Traditional IRA Balance X 2 (Doubles in value over lifetime) <hr/> \$200,000 - \$60,000 (30% tax)	\$100,000 Traditional IRA Balance - \$30,000 (30% tax) <hr/> \$70,000 x 2 (Doubles in value over lifetime)
\$140,000 net	\$140,000 net

Whether taxes are paid now or later, it is the same net return, but *half* the amount of taxes are paid in the Roth conversion...

That is if tax rates stay the same historic low rates they are today throughout your lifetime.



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