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	$100,000 Traditional IRA Balance
X 2 (Doubles in value over lifetime)	- $30,000 (30% tax)
$200,000	$70,000
- $60,000 (30% tax)	x 2 (Doubles in value over lifetime)
$140,000 net	**$140,000 net**

The net return is the same *if tax rates stay the same*...

However, the Roth IRA advantage compounds over time if tax rates increase.

"When tax rates increase, anything tax-free becomes immediately more valuable!" – Ed Slott, CPA

ED SLOTT AND COMPANY, LLC
America's IRA Experts

Web: irahelp.com Email: info@irahelp.com Phone: 800-663-1340