



TACTICAL GUIDE FOR PRE-RETIREES

# The Roth IRA Conversion Playbook

A clear, step-by-step framework for turning tax-deferred savings into a tax-free retirement income engine — without overpaying the IRS along the way.

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McDonough Capital Management · Orlando, FL

## Why This Decade Matters

The years between age 55 and Required Minimum Distributions (RMDs) at 73/75 are the most powerful — and most overlooked — tax-planning window of your life. What you do (or fail to do) in this window can swing your lifetime tax bill by hundreds of thousands of dollars.

A Roth IRA conversion moves money from a pre-tax account (Traditional IRA, 401(k), 403(b)) into a Roth IRA. You pay ordinary income tax on the converted amount today, in exchange for tax-free growth and tax-free withdrawals for the rest of your — and your beneficiaries' — lives.

Done strategically, conversions can lower your lifetime taxes, shrink future RMDs, reduce Medicare premiums (IRMAA), protect a surviving spouse from the "widow's tax trap," and leave heirs a far more efficient inheritance.

### THE CORE IDEA

Pay tax on the seed, not the harvest. The question is never *whether* to pay tax on your IRA — it's *when*, at *what rate*, and *who* ultimately pays it.

## Who This Playbook Is For

- ✓ Pre-retirees age 55–72 with \$500K+ in tax-deferred accounts
- ✓ High earners expecting lower income years before RMDs begin
- ✓ Married couples planning for survivor tax brackets
- ✓ Families focused on multi-generational wealth transfer

## Roth vs. Traditional: The Mechanics

Three forces drive the math of every conversion decision: your tax rate today, your projected tax rate later, and how long the converted dollars will compound tax-free.

|                                    | Traditional IRA              | Roth IRA                  |
|------------------------------------|------------------------------|---------------------------|
| <b>Contributions</b>               | Pre-tax                      | After-tax                 |
| <b>Growth</b>                      | Tax-deferred                 | Tax-free                  |
| <b>Qualified Withdrawals</b>       | Taxed as ordinary income     | Tax-free                  |
| <b>Required Min. Distributions</b> | Begin at age 73              | None during owner's life  |
| <b>Inherited Account</b>           | 10-year taxable drawdown     | 10-year tax-free drawdown |
| <b>IRMAA / SS Tax Impact</b>       | Increases provisional income | Does not count            |

## The "Rate Arbitrage" Principle

A conversion is mathematically advantageous whenever your future marginal tax rate is expected to be **higher** than your current marginal rate — accounting for state taxes, Social Security taxation, Medicare surcharges, and the surviving-spouse bracket compression.

### OFTEN OVERLOOKED

Even with the 2017 Tax Cuts and Jobs Act brackets now extended, federal deficits, Social Security funding pressure, and the surviving-spouse bracket compression all point toward higher effective rates later in retirement. For most pre-retirees, the 2026 tax year still offers a historically low marginal rate — and a narrow window to lock it in.

## The Conversion Window: Mapping Your Opportunity

For most pre-retirees, the highest-leverage conversion years sit inside a predictable life-stage window:

### Age 55–62 **EARLY WINDOW**

Late-career or early-retirement years. Income may still be high, but bonus deferrals, sabbaticals, and business sales can create one-off low-income years.

### Age 63– 69 **PRIME WINDOW**

Retired, not yet on Social Security, not yet taking RMDs. Income is often at its lowest. This is the sweet spot for systematic, multi-year conversions.

### Age 70–72 **CLOSING WINDOW**

Social Security may have started. Last chance to convert before RMDs lock in a higher baseline income.

### Age 73+ **RMD ERA**

Conversions still possible, but RMDs must be taken first and cannot be converted. Planning leverage drops sharply.

#### IRMAA TWO-YEAR LOOKBACK

Medicare Part B & D premiums in any given year are based on your MAGI from **two years prior**. Conversions executed at age 63 affect your premiums at 65. Build this lag into every plan.

## Five Tactical Conversion Strategies

**01**

### **Bracket-Topping Conversions**

Convert just enough each year to "fill up" the current marginal bracket (e.g., to the top of 24%) without spilling into the next. The most common and most disciplined approach.

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**02**

### **IRMAA-Aware Conversions**

Convert to the top of an IRMAA tier rather than a tax bracket. The cliff structure of Medicare surcharges can make a \$1 overage cost \$1,000+ in premiums.

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**03**

### **Bear-Market Conversions**

Convert depressed assets after a market decline. You pay tax on a lower value, and the rebound happens tax-free inside the Roth.

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**04**

### **Charitable Offset Conversions**

Pair a large conversion with a Donor-Advised Fund contribution or QCD to neutralize the tax hit while still moving dollars into the Roth.

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**05**

### **Survivor-Bracket Conversions**

Front-load conversions while filing jointly to protect the surviving spouse from the compressed single-filer brackets — often a 7–10 point rate jump on the same income.

## Case Study: The Henderson Family

Mark (64) and Susan (62), retired from corporate careers in Orlando. \$1.8M in Traditional IRAs, \$400K taxable, no pensions, Social Security deferred to age 70.

### WITHOUT CONVERSIONS

**\$1.42M**

Projected lifetime federal taxes (ages 64–90)

### WITH 7-YEAR PLAN

**\$894K**

Same spending, same legacy goal

### LIFETIME SAVINGS

**\$526K**

Plus a tax-free legacy for two children

## The Plan

- ✓ Convert ~\$180K/year for 7 years to the top of the 24% bracket
- ✓ Pay conversion taxes from the taxable brokerage account (preserves Roth capacity)
- ✓ Delay Social Security to age 70 to maximize the low-income window
- ✓ Pair Year 3 with a \$50K Donor-Advised Fund contribution
- ✓ RMDs at 73 reduced by ~62%; IRMAA exposure cut nearly in half

### ILLUSTRATION ONLY

Figures are hypothetical and assume current law, 6% portfolio growth, and the Hendersons' specific facts. Your results will differ.

## Rules You Must Know

**Five-Year Rule (Conversions):** Each converted amount has its own 5-year clock before earnings can be withdrawn tax- and penalty-free (if under 59½).

**Five-Year Rule (Contributions):** A separate 5-year clock applies to the Roth account itself for tax-free earnings.

**Pro-Rata Rule:** If you hold any pre-tax IRA dollars, "backdoor" conversions are taxed proportionally across *all* your IRAs.

**No Recharacterizations:** Since 2018, conversions are irrevocable. Model carefully before executing.

**RMD First:** If you're 73+, the year's RMD must be distributed before any conversion.

## Pitfalls We See Most Often

- ✗ Converting in a single large year and jumping into the 32%+ bracket
- ✗ Paying conversion tax from the IRA itself — instantly destroying years of compounding
- ✗ Ignoring state income tax when relocating across state lines
- ✗ Triggering NIIT, AMT, or capital-gains rate jumps in the same year
- ✗ Forgetting the 2-year IRMAA lag when planning around Medicare enrollment

## The McDonough Decision Framework

Before we recommend a single dollar of conversion, every client runs through six diagnostic questions:

- 1 **What is your *effective marginal rate today*** — including state, NIIT, and phaseouts?
- 2 **What is your *projected marginal rate*** at age 75, accounting for RMDs and Social Security?
- 3 **What is the *surviving-spouse rate*** after the first death?
- 4 **Where will the *tax dollars come from*** — and does paying from outside the IRA still leave adequate liquidity?
- 5 **What are the *IRMAA, ACA-subsidy, and capital-gains cliff effects*** in the conversion year?
- 6 **What is the *legacy intent*** — spend-down, spouse-first, or multi-generational?

### RULE OF THUMB

If converting today saves more than 3 percentage points in projected lifetime marginal rate — and you can pay the tax from non-IRA assets — the math almost always wins.



## Your Pre-Conversion Checklist

Before executing any Roth conversion this year, walk through every item below with your advisor and CPA.

- ☐ Year-end income projection complete (W-2, 1099, K-1, RSU, cap gains)
- ☐ Marginal bracket headroom calculated to the dollar
- ☐ IRMAA tier mapped for the conversion year + 2 years forward
- ☐ Pro-rata aggregation across all IRAs verified
- ☐ Source of tax payment identified (non-IRA preferred)
- ☐ Capital-gains harvesting coordinated with the conversion
- ☐ Charitable giving (DAF, QCD) layered if applicable
- ☐ State residency and tax rules confirmed
- ☐ Beneficiary designations updated on the Roth account
- ☐ Conversion executed and 1099-R confirmation filed

# Let's Build Your Conversion Plan



**Edward McDonough, BSME, CFP®**

Chief Investment Officer



**Shannon McDonough, CFP®**

Wealth Advisor

## McDonough Capital Management

📍 6000 Turkey Lake Rd, Ste 212 · Orlando, FL 32819  
📞 (407) 248-9647

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### Schedule a 15-minute Roth conversion call

We'll discuss your goals and current tax picture.

2

### Receive a custom conversion model

Multi-year projection comparing scenarios side-by-side.

3

### Execute with confidence

We coordinate with your CPA and custodian end-to-end.

**Schedule Your 15-Minute Roth Conversion Call →**

[calendly.com/shannon-mcdonoughcapital/roth](https://calendly.com/shannon-mcdonoughcapital/roth)

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