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I'm 65 Years Old With $750k in an IRA. I'm Taking Social Security – Is It Too Late for a Roth Conversion?

Mark Henricks SmartAsset Dec 29, 2023

If you're 65 years old and collecting Social Security, you may wonder if it's too late to convert your $750,000 traditional IRA into a Roth IRA. The short answer is no - there are no legal restrictions to Roth conversion based on age or income. Practically, however, the decision involves carefully weighing tax implications, healthcare costs, estate planning and more. Spreading conversions over multiple years often makes the most financial sense for larger IRAs. Guidance from a financial advisor can help you weigh the costs of a Roth conversion in your circumstances.

Roth Conversion Basics

A Roth IRA conversion involves moving funds from a traditional, pre-tax IRA into an after-tax Roth IRA account. You pay income tax on the money that gets converted now, but future withdrawals in retirement come out tax-free.

Plus, traditional IRAs are subject to required minimum distributions (RMDs) starting at age 73. This can lead to higher taxes in retirement as RMD income, which is treated as ordinary taxable income, can push retirees into higher tax brackets. But RMD rules don't apply to Roth IRAs and Roth 401(k)s, so you can leave the money in the account or withdraw it any time you need it without owing any taxes on your contributions (you may owe income taxes on investment earnings if you withdraw them less than five years after making your initial contribution).

If you need additional help navigating the rules surrounding Roth IRAs, consider speaking with a financial advisor.

Why Timing Your Roth Conversion Matters

The sooner you convert funds from your traditional pre-tax IRA to a Roth account, the more years of tax-free growth you'll enjoy in your Roth account. And you'll be able to withdraw those Roth funds without owing any taxes.

But you will have to pay taxes on the conversion, which is no small consideration when it comes to timing. Converting a large IRA can require you to pay the top marginal tax rate of 37% on most or even all of the entire conversion amount, depending on your other income, deductions and additional factors.

If you convert it gradually, however, you can spread the income bump out over several years and avoid subjecting it to the top marginal tax rate. This can help reduce the tax owed each year and overall.

It's also important to consider when you'll need to withdraw funds from your Roth IRA. Funds can't be withdrawn without penalty within five years of the conversion. And, if you convert your IRA to a Roth gradually over time, those conversions each retrigger the five-year rule for that portion of the money.

Meeting with a financial advisor can provide clarity on complex moves like Roth conversions.

Converting a $750k IRA

A major concern in converting a $750,000 IRA balance at once would be the significant tax bill that would accompany such a transaction. Completely a Roth conversion of that size would push the person into the 37% marginal tax bracket.

If you're a single filer and your Social Security income isn't high enough to be taxed, adding $750,000 to your current income could trigger about $238,000 in extra taxes, using the 2023 tax brackets. Going slowly with $75,000 converted per year over 10 years reduces the tax hit each year by keeping your taxable income in the 22% bracket.

Here's how those scenarios might play out, assuming you are a single filer and your Social Security income is less than $25,000 so escapes taxation:

Scenario 1: Converting $750,000 All at Once

- Size of Roth conversion: $750,000
- Tax bracket: 37%
- Total Federal income tax owed : $237,831

This option leaves you with a massive tax bill but around $512,000 in your new Roth IRA, which you'll eventually be able to withdraw tax-free.

Scenario 2: Annual $75,000 Conversions Over 10 Years

- Size of Roth conversion: $75,000 (x10)
- Tax bracket: 22%
- Total Federal income tax owed : $88,000 over 10 years

Keep in mind that funds left in your IRA will continue to grow while you're executing these annual conversions, so the IRA likely won't be empty by the time you have to start taking RMDs. However, the RMDs you'll have to take by then will be much smaller so won't incur nearly as much taxation compared to leaving the money in a traditional IRA.

A third option is to leave the money unconverted in your IRA and start taking RMDs once you turn 73, paying taxes on them as you go. However, this could leave you paying higher taxes in retirement until your death. But if you need more help taking stock of your different options, this free matching tool can pair you with a fiduciary advisor.

Making the Call

You may not find that one course of action is clearly superior. Factors to consider when deciding if and how much Roth conversion makes sense:

- Compare current vs. future income tax rates
- Account for RMDs and estate plans
- Weigh healthcare and other senior costs
- Assess tax impact on heirs
- Model multi-year scenarios

Strategic partial Roth conversions tailored to your situation may provide the most tax advantages for people with large IRA balances.

One major limitation to Roth conversions is that they cannot be reversed. If tax rates decline later or you need converted funds sooner, you could regret having locked in taxes now at a higher rate. Inheritance plans may also change. Do a thorough multi-year analysis before committing to convert.

Run your own Roth conversion scenarios first or enlist the help of a financial advisor to help you make these important calculations.

Bottom Line

At 65 or any age, while parts of your retirement finances remain unsettled, limiting Roth conversions to small chunks spread over years offers flexibility. This balances immediate tax costs against future tax savings for you and your heirs. As with most money moves in retirement, prudently assessing your multi-year tax picture first is key.

Retirement Planning Tips

- Instead of guessing if converting your IRA makes sense, talk to a financial advisor who can crunch the numbers. Finding a financial advisor doesn't have to be hard. SmartAsset's free tool matches you with up to three vetted financial advisors who serve your area, and you can have a free introductory call with your advisor matches to decide which one you feel is right for you. If you're ready to find an advisor who can help you achieve your financial goals, get started now.
- Keep in mind that there are income limitations for contributing to a Roth IRA. In 2024, the IRS doesn't permit single filers with an adjusted gross income (AGI) above $87,000 and married couples who file jointly with an AGI above $240,000. However, backdoor Roth IRAs can help high earners legally circumvent these income limits.

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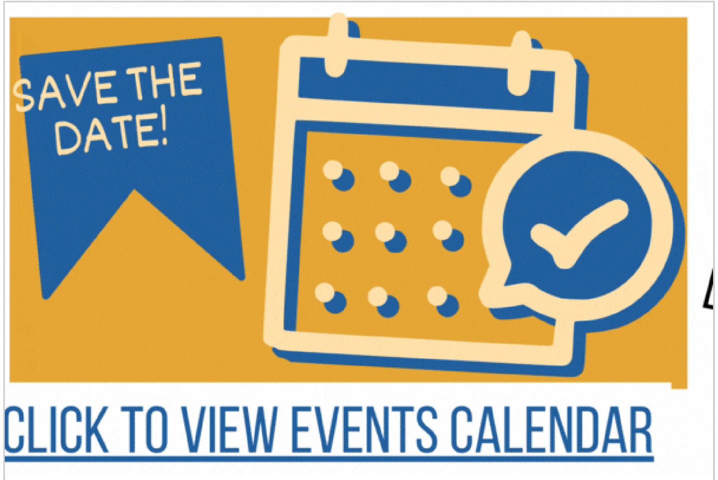

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