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Bank & Trust Company

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Is a conversion to a Roth IRA right for you?



IRAs have become a very important element of retirement security. The Individual Retirement Account was added to the tax code in 1974, along with the ERISA overhaul of retirement plan regulation. Contributions may be deductible, depending upon the taxpayer's income, and distributions are taxable as ordinary income. The Roth IRA became available in 1998. There are no deductions for contributions, but if all conditions are met, all the distributions from a Roth IRA during retirement are tax-free.

Nearly 60 million households owned an IRA as of year-end 2025, according to the *2026 Investment Company Institute Fact Book*. However, over 85% of IRA assets are held in traditional IRAs—some $15.9 trillion—compared to $2.4 trillion in Roth IRAs. The reason for the disparity is that traditional IRAs have long been used, through a rollover of the funds, to preserve the tax deferral for distributions from 401(k) plans and other qualified retirement plans. The contribution limit for such plans has always been far higher than the limits for IRAs.

The Roth conversion option

A traditional IRA may, at the option of the account owner, be converted to a Roth IRA. There are no income restrictions on who may exercise the conversion option. However, there is a price to be paid, as the entire amount of the conversion must be included in ordinary income.

For larger IRAs, that can be an intimidating tax bill. But when one works through the math, conversion to a Roth IRA may be a very good idea. The optimum conditions are that the taxpayer no longer has wage income, has not yet started Social Security benefits, and has other financial resources to draw upon to meet expenses, such as an after-tax investment portfolio. In that situation, the cost of conversion to a Roth IRA may be relatively low.

Those conditions are met for many taxpayers in the period from age 65, when working for wages ends, until age 73, when Required Minimum Distributions must begin. One rule of thumb is to fill up the 12%, 22% and 24% tax brackets if they are available, by converting a portion of an IRA to a Roth.

Caveats. For maximum benefit, the tax cost of the conversion should be paid from other assets, not from the IRA.

For those who are 73 or older, conversion of an IRA to a Roth IRA is permitted, but it is complicated. The first dollars distributed from the IRA are treated as satisfying the RMD mandate, and as such *may not* be rolled into a Roth IRA. Only after all RMDs have been satisfied may additional distributions be eligible for conversion. Timing is critical to avoid major tax penalties.

Big benefits

There are many benefits offered by the Roth IRA to take into account.

Certainty. Federal income tax rates today are relatively low. That may not always be the case, as the government searches for revenue to keep the Social Security trust funds solvent.

Planning flexibility. Required minimum annual distributions (RMDs) are mandated from traditional IRAs once the owner reaches age 73. There are no such requirements for Roth IRAs.

Tax freedom. After five years, distributions from the Roth IRA are not included in income after age 59½. The income taxes have effectively been prepaid.

A tax-free legacy. The income tax freedom of the Roth IRA continues for up to 10 years after death. Those who inherit a traditional IRA will have to pay ordinary income tax on their distributions.

Lower taxes on Social Security benefits. Those required minimum distributions from traditional IRAs may have the side effect of increasing the taxes that the retiree must pay on Social Security benefits received. Singles with adjusted gross incomes (AGI) below $25,000 and married couples below $32,000 do not have to worry about taxes on benefits. For singles with AGI from $25,000 to $34,000, up to 50% of their benefits will be taxed; above $34,000, up to 85% will be taxed. For married couples, the 50% inclusion bracket is $32,000 to $44,000, and it is 85% above $44,000.

Unlike many other elements of the tax code, these boundaries have never been adjusted for inflation. Thus, more and more Social Security benefits are being subject to income taxation as the years go by.

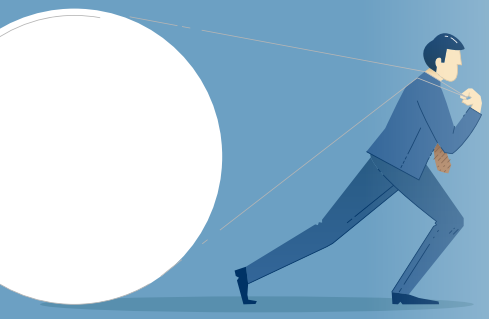
What is best for you?

Conversion of a traditional IRA to a Roth IRA is a major life decision—definitely worth paying for professional advice before undertaking. The decision must be put into the context of the taxpayer's total resources and wealth management objectives.

The tax consequences of a conversion may be softened by doing partial conversions over time. It's not an all-or-nothing decision. The conversion might be handled at 20% per year for five years, for example. Or a larger share might be converted in a year when one's income is low, putting the transaction in a lower tax bracket.

We can be of service

Helping retirees manage their retirement income is among our core services. We manage investment portfolios, as well as large IRAs and Roth IRAs. Looking for lifetime financial security? Schedule a meeting with one of our wealth consultants to explore your options.



Quotable

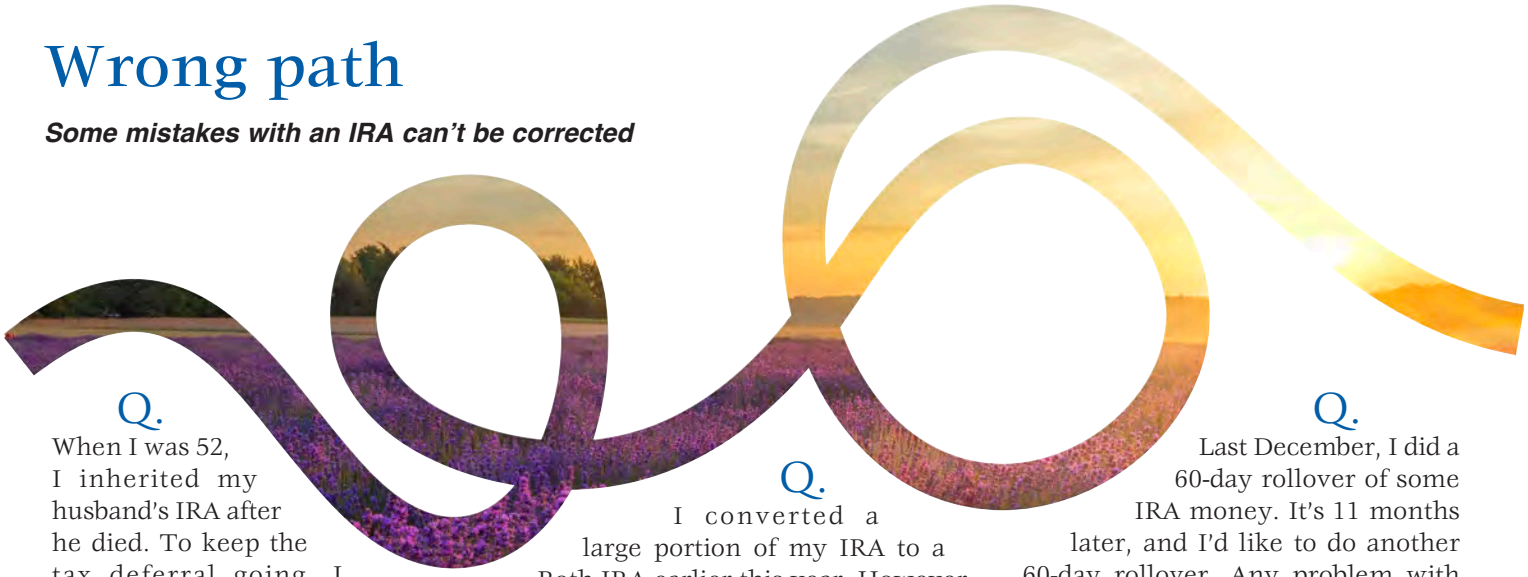
Ed Slott, on converting to a Roth IRA: "Yes, it costs more upfront, but you get something for your money. I call it tax freedom. You get the ability to grow the account absolutely income-tax-free for the rest of your life and beyond, even after the Secure Act 10-year rule for beneficiaries; 10 more years of absolutely income-tax-free growth for 10 more years after death. So, you get something for your money."

—From a conversation with Christine Benz of Morningstar, "Early Retirees: Why Now Is the Time to Convert Your IRA to Roth," *September 17, 2026*

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Wrong path

Some mistakes with an IRA can't be corrected



Q.

When I was 52, I inherited my husband's IRA after he died. To keep the tax deferral going, I rolled the entire amount into an IRA for myself. Now I'm 55, and I need money for living expenses—can I take it from the IRA?

A.

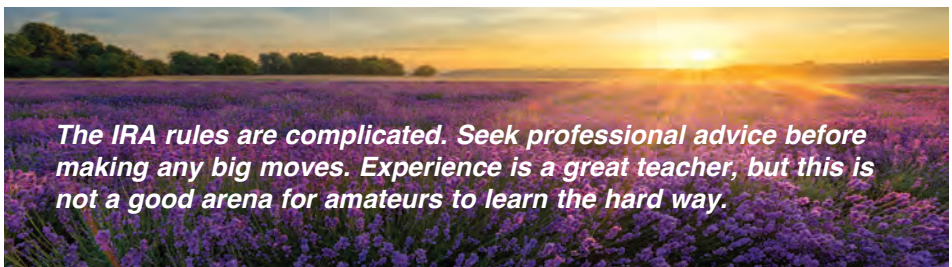
If you do, you'll owe a 10% tax penalty on the amount withdrawn, as well as ordinary income tax. Had you left the money as an inherited IRA, there would be no penalty. As a general rule, surviving spouses should not roll an inherited IRA into an IRA for themselves until they are 59½ to avoid tax penalties for early withdrawals. And no, you cannot reverse your decision to make the IRA your own.

Q.

When I retired, I received cash and company stock from my employer's retirement plan. I transferred both to an IRA to preserve my tax benefits. Now I've been told about something called "net unrealized appreciation," under which a sale of the stock would be taxed at long-term capital gain rates. Can the IRA preserve that status?

A.

No, it cannot. Your rollover cannot be reversed, and after the stock is sold, the entire proceeds will be taxed at ordinary income tax rates when you receive them.



The IRA rules are complicated. Seek professional advice before making any big moves. Experience is a great teacher, but this is not a good arena for amateurs to learn the hard way.

Q.

I converted a large portion of my IRA to a Roth IRA earlier this year. However, a friend just told me that there was a booby trap in that transaction. He has a Medicare income-related monthly adjustment amount (IRMAA) surcharge now, and it's because of the conversion to a Roth he did two years ago! I wish I had known—can I reverse my conversion before the end of the year?

A.

Sorry, no, the option to recharacterize a Roth conversion was eliminated nearly a decade ago. A conversion of a traditional, taxable IRA to a Roth IRA is irrevocable.

Q.

I inherited my mother's IRA. I decided to move the money to a different custodian, so I had a check for the full amount made out to me. I have 60 days to roll the money into a new IRA, right?

A.

Wrong. Only a surviving spouse can move inherited IRA funds between custodians with a 60-day rollover. You should have arranged for a direct transfer of the funds from the prior custodian to the new one. Now you will owe income taxes on the entire amount of your withdrawal, and if you try to place it into an IRA, it will be an excess contribution.

Q.

Last December, I did a 60-day rollover of some IRA money. It's 11 months later, and I'd like to do another 60-day rollover. Any problem with that? It's a new tax year, after all.

A.

The problem is that a taxpayer is allowed only one 60-day rollover within any 12-month period—the rule is *not* per tax season. The second attempted rollover within 12 months will be a taxable distribution, subject to an additional 10% penalty tax if you are under 59½, and any funds rolled over will be an excess IRA contribution and will have to be withdrawn. On the other hand, you can arrange for a direct transfer of funds between IRA custodians, and there is no time limit on doing that.

Q.

I had shares of stock from my IRA transferred to my brokerage account, intending to roll them into an IRA within 60 days. However, the price jumped up, so I sold the shares. Then I rolled cash equal to the value of the shares on the date of the distribution into the new IRA and kept a nice profit on the transaction. Pretty clever, huh?

A.

Sorry, no. Rollovers must be of the same property. If the distribution is cash, the rollover must be cash; if it is stock, only that stock may be rolled into the new IRA. When you sold the shares from the IRA, the entire distribution became taxable income. When you placed cash of equal value into an IRA, that was an excess contribution.

No arbitration

Samuel Hekemian's 2002 will created three trusts: a "credit shelter trust," a "generation-skipping marital trust," and a "residuary marital trust." The will appointed son Peter and family friend and attorney Edward Imperatore as executors of the estate and trustees of the three trusts. The will also included an arbitration clause for resolving any disputes that might arise from the administration of the estate or the trusts. The trusts were primarily for the benefit of Samuel's surviving spouse, but the credit shelter trust gave the trustees discretion to distribute assets to the spouse and to their children and grandchildren.

Samuel died in 2018; his will was probated; Peter and Edward assumed their responsibilities without objection. In 2020, another son, Richard, and his wife tried unsuccessfully to buy a home. Their income was too low and their debts too large to qualify for the mortgage financing that they required. Richard asked the trustees for a distribution from the trust, or if a distribution was not possible, a loan from the trust to enable him to proceed with this major purchase. The trustees denied the request.

Richard's next step was to demand an accounting of the management of the trusts. The trustees declined that request as well, pointing to the arbitration clause in the will as the remedy for resolving any disputes. Not satisfied with that approach, Richard filed a lawsuit for the accounting.

When testators fear the possibility that a will might be challenged by disappointed heirs, they may include in it an *in terrorem* clause to disinherit anyone who challenges its validity. An arbitration clause is different. A New Jersey appellate court recently reviewed the Hekemian arbitration clause, a case of first impression.

Arbitration for dispute settlement is encouraged by the courts in the context of contract controversies. A valid contract represents a "meeting of the minds," so when a contract includes an arbitration clause, both parties have accepted it, and each has given up recourse to the courts should disagreements ensue. This court held that there was no similar reciprocity here; the beneficiaries were not parties to the execution of the will, so Richard is not limited to arbitration.

What is more, "arbitration clauses that eliminate the courts' expected role in resolving will disputes are inconsistent with the detailed statutory scheme vesting the superior courts with the authority to adjudicate such issues." Notwithstanding the intent of the testator, arbitration clauses in wills are not enforceable in New Jersey.

Is a family member showing signs of Alzheimer's disease?



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