



Case Study: Minimizing Future Income Taxes with Roth Conversions

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Agenda

- Introduction
- Portfolio / Asset / Liabilities Overview
- Future Tax Bracket Forecasts
- Tax Considerations During Roth Conversions
- Summary
- Next Steps
- Discussion / Questions

Introduction

Objective -

- Review proposed investment strategy to minimize income taxes & maximize legacy balance via Roth conversions

Background -

- Retired from XOM Q1 2016 at 57
- Rolled over Pension Lump Sum & 401K to VG Trad IRA Q4 2017
 - Used NUA to roll out low cost basis XOM to ATAX Brokerage Acct
- Access to Trad IRA without penalty in 2018 (59-1/2)
- Life expectancy per Livingto100.com: 86 me & 106 wife

Portfolio/Assets/Liabilities Overview

VG Retirement Accnts (75%) -

- Trad IRA – Twelve portfolio allocation model for VG passive inv's
 - 60% VG MF's
 - 40% Cash (intend to invest 35% in bonds & leave 5% in cash)
 - Use Trad IRA to fund Roth conversions
- Roth IRA's – minimal balances, 5 Yr Rule?

ATAX Accnts (25%) -

- VG Brokerage Accnt* – XOM stock + cash from dividends & recent stock sales
- VG Joint Brokerage Accnt* - 4 stock & bond MF's

Portfolio/Assets/Liabilities Overview, cont.

- Ameriprise Var. Annuity* – 4 stock MF's + 3% fixed acct
- Ameriprise Var. Universal Life Policy* – 4% fixed acct
- VG 529 Plan – Target Fund

*Use these accnts to fund Living Expenses

Assets & Liabilities -

- Spring Branch home built in 2019
 - 30 Yr Fixed Mortgage at 2.5% IR (20% of appraised value). Paying 2 extra payments/yr to minimize total interest paid.
- Heights Townhome built in 2006 & purchased in 2009. Using as rental property since 2016.

Future Tax Brackets Forecast

Traditional IRA RMD Projections & Associated Federal Income Tax Rate							
Roth Conversions:			None	\$111K/yr	\$167K/yr	\$222K/yr	
Trad IRA Starting Bal, SK:			X	X-1000	X-1500	X-2000	
			Est Tax	Est Tax	Est Tax	Est Tax	
Age	LEF	LEF	Bracket	Bracket	Bracket	Bracket	Comments
63							Current age May, 2022
70							Have 9 yrs for Roth conv prior to RMD's
71							Start RVN SS benefits
72	27.4	3.6%	24%	24%	24%	24%	Start RMD's
73	26.5	3.8%	24%	24%	24%	24%	Start WVN SS benefits
74	25.5	3.9%	24%	24%	24%	24%	
75	24.6	4.1%	32%	24%	24%	24%	
76	23.7	4.2%	32%	24%	24%	24%	
77	22.9	4.4%	32%	24%	24%	24%	
78	22.0	4.5%	32%	24%	24%	24%	
79	21.1	4.7%	32%	32%	24%	24%	
80	20.2	5.0%	32%	32%	24%	24%	
81	19.4	5.2%	32%	32%	32%	24%	
82	18.5	5.4%	24%	24%	24%	24%	
83	17.7	5.6%	24%	24%	24%	24%	
84	16.8	6.0%	24%	24%	24%	24%	
85	16.0	6.3%	24%	24%	24%	24%	
86	15.2	6.6%	24%	24%	24%	24%	
87	14.4	6.9%	24%	24%	24%	24%	
88	13.7	7.3%	24%	24%	24%	24%	
89	12.9	7.8%	32%	24%	24%	24%	
90	12.2	8.2%	32%	24%	24%	24%	
91	11.5	8.7%	32%	24%	24%	24%	
92	10.8	9.3%	32%	24%	24%	24%	
93	10.1	9.9%	32%	24%	24%	24%	
94	9.5	10.5%	32%	24%	24%	24%	
95	8.9	11.2%	32%	24%	24%	24%	Assumes both spouses survive to 95

- Consider Roth Conversion Scenarios over a 9 yr period (ages 63 – 71)
- Estimate balance of Trad IRA at age 72
- Spreadsheet calculates RMD's for me & wife (inherited IRA – 10 yrs to liquidate)
- Includes 85% of SS benefits for me & wife
- Assumptions made for IRA ROR's & SS COLA
- Spreadsheet calculates Total Annual Income
- Tax Bracket estimate based on 2022 tax tables. Assumes standard deduction of \$26K.
- Conclusion: Target \$1500K (\$167K/yr) Roth Conversion Scenario

Tax Considerations During Roth Conversions

- Tax Est for \$1500K Roth Conv Scenario
 - MAGI = \$167K Trad IRA W/D (ord inc) + \$18K XOM dividends (cap gain) = \$185K
 - 2022 Tax Table, MFJ: \$83,550 - \$178,150, tax = \$9615 + 22% of amt > \$83,550
 - Standard deduction, MFJ = \$26k.
 - Tax due = \$25K
- Est Annual Living Exp = \$150K
- Required funding from ATAX Accts* = \$150k exp - \$18K XOM dividends - \$12K VUL distr = \$120K/yr
- Need to sell townhome to help fund 9 yrs of Roth conversions
- Note: To avoid Medicare IRMAA penalty, need MAGI below \$182K
 - 2022 Part B Premium = \$170/mth (\$2,040/yr) for MAGI ≤ \$182K
 - 2022 Part B Premium = \$238/mth (\$2,856/yr) for MAGI \$182K - \$238K

Summary

- Utilize Roth Conv's to reduce RMD's & future taxes & max legacy
 - Stay within 22%/24% tax brackets before/after RMD's
 - Roth benefits - No RMD's & earnings grow tax free
 - Stay <\$182K MAGI to avoid Medicare IRMAA penalty for Part B Premiums
- Fund living exp's with W/D's from ATAX Accnts* & proceeds from Townhome sale
- Strategy maximizes Townhome value
 - Replaces ordinary income stream (rent) with tax free funds (post sale)
 - Current housing market is hot & interest rates are rising
 - Avoids pending exp's to renovate & replace roof, HVAC, water heaters, etc.
 - Lose some diversity with increased concentration in equities

Summary, cont.

- Strategy delays SS benefits until 70 & max's survivor benefit
 - Longevity in wife's family
 - Inflation protection
- Use low cost basis XOM stock to fund charitable contributions
 - Deduct full market value of stock

Next Steps

- Model scenarios in NewRetirement.com to confirm/quantify results
- Sell Townhome
- Reallocate some ATAX accnts. Continue to diversify from XOM stock.
- Make a plan for Roth IRA allocation
- Allocate cash in Trad IRA to bonds (after Fed is finished raising interest rates?)