



# ED SLOTT'S IRA ADVISOR

December 2024

Tax & Estate Planning for Your Retirement Savings

## WHAT'S INSIDE?

### Happy Holidays

#### Roth Conversions Gone Wrong

- Recharacterization: Gone
- The IRMAA Predicament
- Estimated Taxes
- Aggregated RMD Must Be Withdrawn First
- Miscellaneous Conversion Mistakes
- Wise Conversion Strategies

<Pages 1-3>

#### Executive Summary

<Page 2>

#### Index of Articles

<Pages 3-4>

#### Acknowledgments

<Page 8>

#### Download: Retirement Plans Comparison Table

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**Key Features to**  
**Consider When**  
**Recommending an**  
**Employer Plan to a Small**  
**Business**

<Pages 6-8>

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## Roth Conversions Gone Wrong

Ofentimes reality does not match the idyllic images in our mind. Family picnics are ruined by nuisance ants, and a day at the beach is washed out by rain. Likewise, ill-timed Roth conversions can be disastrous. The allure of tax-free earnings is powerful, but we must look before we leap. Despite being advertised as a financial panacea, Roth conversions are not for everyone. Unintentional and undesirable consequences can follow. Failure to acknowledge the possible downsides could be problematic.

### Recharacterization: Gone

Roth conversion income increases adjusted gross income (AGI) for the year of the conversion — *potentially causing the loss of valuable tax credits and deductions, taxation of Social Security, and increased "stealth taxes."* While this only happens for the year of the conversion, such negative consequences must be considered before executing the transaction. Once the order is entered, there is no going back. As part of the [Tax Cuts and Jobs Act](#), Roth IRA conversions done in 2018 or later years cannot be recharacterized (reversed). Whatever negative consequences result from the conversion must now be dealt with head on. *(Note that in-plan Roth conversions, like within a 401(k), never had a recharacterization feature.)*

### The IRMAA Predicament

The Medicare health care system is largely government funded, but individuals pay to participate in two portions of it. Medicare charges premiums to participants in Medicare Part B, covering doctor visits, and Part D, the prescription drug benefit. The standard costs for these are increased by surcharges imposed on upper-income individuals — *those with modified adjusted gross income (MAGI) exceeding certain thresholds.* The extra amount that higher-income earners must pay is called an "Income Related Monthly Adjustment Amount" (IRMAA). IRMAA surcharges apply on a "cliff" basis. Reaching the first dollar of an IRMAA income level causes the full corresponding surcharge to apply to all annual premiums. *(Note that Medicare determines IRMAA charges for a particular year based on the MAGI reported on the federal income tax return from two years ago.)*

**Example 1:** In 2024, single tax filers with a 2022 MAGI of \$103,000 or less (and joint filers with a 2022 MAGI of \$206,000 or less) pay no monthly IRMAA charges. Sheila is a single filer. If her 2022 MAGI was \$103,001, then a monthly surcharge of \$69.90 for Part B plus \$12.90 for Part D (\$82.80 total) will apply for all 12 months of the year 2024. \$1 of additional income could increase Sheila's premium cost by \$993.60 for the year.

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