ED SLOTT'S IRA ADVISOR

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Tax & Estate Planning for Your Retirement Savings

WHAT'S INSIDE?

Whiplash: Retirement Account Opportunities & Mistakes During Market Volatility

For retirement savers, unprecedented fluctuations in the stock market, along with increasing discussions about a potential recession are, to say the least, unnerving. While market pullbacks are concerning, they can create opportunities for those with a long-term view. Such volatility can also lead to panicked decisions that create unnecessary financial pain. As we ride this market roller coaster, it is important for retirement account owners to both identify the potential opportunities and avoid mistakes.

Roth Conversions

Roth conversions represent a supreme opportunity during a market downturn. The benefits of a Roth IRA are many: Roth IRAs have no lifetime required minimum distributions (RMDs) and remove the uncertainty of what future tax rates might be; Roth IRAs are more favorable for estate planning, especially when naming a trust as beneficiary; and Roth IRA funds usually pass income tax free to beneficiaries. While anyone with a retirement account that is eligible to be rolled over can do a Roth conversion, there are ways to maximize the tax advantages of this transaction.

The best time to do a Roth conversion of a retirement account holding stocks or stock funds is when the market is down. Converting when investments are "on sale" allows the account owner to buy low and then reap the reward of tax-free growth when markets rebound. The problem is that no one can perfectly time the market. However, for anyone anticipating a Roth conversion later this year, it might be wise to expedite those plans to take advantage of lower market levels. Additionally, anyone who is "dollar cost averaging" their Roth conversions (i.e., converting a little each month or quarter in an effort to smooth out volatility) might want to increase their next conversion amounts.

Example 1: Ray is steadily converting $5,000 of his investments in his traditional IRA to his Roth each month, with a final annual target of $60,000. With a recent market downturn, Ray increased his April conversion to $10,000. He will do the same in May if markets continue to fall. By "dollar cost averaging" into a Roth IRA with a sequence of partial conversions, Ray created an opportunity to convert more shares at lower costs, thereby maximizing his tax efficiency.

Executive Summary

Whiplash: Retirement Account Opportunities & Mistakes During Market Volatility

- Roth conversions represent a supreme opportunity during a market downturn. Converting when investments are "on sale" allows the account owner to buy low and then reap the reward of tax-free growth when markets rebound.
- Pass-through losses can be used to offset income from a conversion. However, capital losses can only offset up to $3,000 of that year's ordinary income, including Roth conversion income.
- The 2025 RMD is fixed as it is based on the year-end 2024 account value. If an IRA balance has declined due to a market slump, the RMD cannot be reduced.
- Forward-looking employees with a long-term view could see a dip in the price of the company stock in their 401(k) as an opportunity to "reset their NUA cost basis."
- Regarding 72(t) payments, a one-time switch to the RMD method may be appropriate where the IRA has shrunk due to a stock market downturn.
- Retirement account owners are not entitled to any tax benefits on losses. The Tax Cuts and Jobs Act eliminated most of these miscellaneous itemized deductions.

Creditor Protection for Retirement Accounts

- The level of protection varies between IRAs and plans, and between bankruptcy and general creditors due to different laws, such as ERISA, the federal Bankruptcy Code and varying state laws.
- The Bankruptcy Code imposes a dollar limit on the amount of contributory (non-rollover) IRA funds that are free from creditors. On April 1, 2025, the limit increased to $1,711,975.
- The bankruptcy exemption for IRAs is only effective as long as the retirement account remains tax-exempt. If an IRA owner commits a prohibited transaction, the retirement account loses its protection.
- Based on federal protection, funds in workplace plans are completely safe from bankruptcy creditors.
- IRA (both traditional and Roth) owners receive whatever non-bankruptcy creditor protection is available in the state where they reside. There is no uniform state law IRA protection. ERISA plans are completely protected from non-bankruptcy creditors.

Top Tax Tactics for Retirees and Pre-Retirees

- Begin a series of partial Roth IRA conversions soon after retirement. Individuals should carefully calculate Roth IRA conversions to generally owe zero or low tax while moving money from traditional IRAs to the Roth side.
- A retiree should delay Social Security for as long as possible to receive the maximum amount for which he qualifies, considering his work history.
- Retirees who are at least age 70½ could use QCDs to satisfy their RMD obligation without generating income tax. This will also help to minimize or even avoid tax on Social Security income.
- Individuals should consider LTC policies. If it turns out that they have out-of-pocket LTC expenses beyond the policy's coverage, they can take needed funds from traditional IRAs and offset the resulting taxable income with an itemized medical expense deduction.
- In 2025, a single taxpayer with up to $48,350 in taxable income can take long-term capital gains at a zero percent tax rate.
- Qualified Roth IRA distributions are not included in taxable income so they do not count for the computation of higher Medicare premiums (i.e., IRMAA).

It is important to remember that Roth conversions are permanent. Due to the Tax Cuts and Jobs Act of 2017 (TCJA), they can no longer be recharacterized. Anyone who completes a Roth conversion prior to a market downturn cannot unwind the transaction. Taxes will be due on the converted amount. Those who have already completed their 2025 Roth conversion must simply face the tax music. In addition, those with certain tax characteristics — *like capital losses* — may not be available to fully offset the income from a Roth conversion. While pass-through losses CAN be used to offset income from a conversion, selling non-qualified investments at a loss and thinking all those losses will help would be a major error. Capital losses must first be used to offset capital gains, and any remaining capital losses can only offset up to $3,000 of that year's ordinary income, including Roth conversion income.

Example 2: Janice is self-employed and expects to sustain pass-through losses this year based on her clients' reduced spending habits (due to their fears of a recession). Janice's IRAs are 100% invested in stocks.

Janice originally planned to do a nominal Roth conversion in 2025. However, by leveraging her elevated pass-through losses, Janice can offset significantly more income from a Roth conversion than previously anticipated. As such, Janice uses the pass-through losses to her advantage and converts more of her traditional IRA to a Roth than she had originally budgeted. Janice also has capital losses from the sale of non-qualified stock this year, but no capital gains. She can only use up to $3,000 of those capital losses to offset the additional income from her Roth conversion.

Regardless, Janice can use the pass-through losses and a portion of her capital losses to complete a much larger Roth conversion this year. Combined with the market sell-off, Janice is able to convert more shares of stock, which will bode well for her when markets rebound.

RMDs

There are no "opportunities" with required minimum distributions (RMDs) during a market dip, but it is important to understand the rules. For example, RMDs from all IRAs must be withdrawn before a person can do a Roth conversion. For those looking to expedite a conversion this year due to the market downturn, the timing here is vital — *take the RMD first.*

Also, anyone taking an RMD for 2025 must calculate the RMD using the December 31, 2024, balance. With a market slump, some people may ask, "Since my IRA balance is much lower now, can I trim my RMD this year?" The answer is no. The 2025 RMD is fixed; it is based on the year-end 2024 account value. The only exception is when the current balance in the IRA is less than the RMD amount. In such unusual situations, the account owner can withdraw all the money from the IRA and avoid a penalty for an insufficient distribution.

The 2025 RMD is fixed, as it is based on the year-end 2024 account value.

On rare occasions, when markets have experienced severe declines, Congress has stepped in and waived RMDs for the year. This happened in 2009 during the "Great Recession" and again in 2020 due to the global pandemic. As of now, it is too early to tell if similar relief will be provided in 2025. However, the fact that RMD waivers have occurred before is worth noting. In times of great market volatility, retirement savers may want to delay 2025 RMDs until later in the year. Account balances may have recovered by then, or Congress could act and grant some relief.

NUA

Market dips can create positive opportunities with the net unrealized appreciation (NUA) tax strategy but can also lead stock owners down the wrong path. When executed properly, the NUA strategy allows a person to pay ordinary income tax on the cost basis of company stock from a workplace retirement plan, and long-term capital gains on the appreciation.

This could result in tens of thousands of dollars in tax savings. Forward-looking employees with a long-term view could see a dip in the price of the company stock in their 401(k) as an opportunity to "reset their basis."

Example 3: Maria, age 45, participates in the 401(k) offered by her employer, ABC Company. Within her 401(k) account, Maria owns shares of ABC stock and has a current average cost basis of $40. When the market was at its peak, ABC stock reached $70 per share. However, with the recent downturn, ABC stock has slumped to $30 per share. Maria sells all her ABC stock within her 401(k) and promptly buys back the shares at $30, thereby "resetting" her cost basis. (The "wash-sale rule" does not apply in this scenario.) If ABC stock rebounds over the next few years, Maria has set herself up for a more favorable NUA distribution in the future.

Unfortunately, market volatility can also lead to panicked decisions. Others within ABC Company (from Example 3) may not have been so level-headed as Maria. The old adage of "buy low, sell high" often gets reversed. For some, market downturns lead to restless nights.

A mistake would be to liquidate all 401(k) company stock shares while the markets are tumbling and to sit on the sidelines until things get better. As mentioned, timing the market is impossible. Missing the rebound "bumps" on the way back up could significantly minimize returns (e.g., the Dow Jones 2,963-point rebound on April 9). Additionally, selling out and buying back company stock at a higher share price could ruin what was previously a solid NUA opportunity. Before haphazard panic selling company stock, be sure to consult with a knowledgeable financial professional to assess the situation.

72(t) Adjustments

A 72(t) payment plan must continue for five years or until age 59½, whichever comes later. Usually, the same distribution method must be maintained during the entire payment period. Three distribution methods have been approved by the IRS: RMD, amortization, and annuitization. The goal is to use the method that produces the largest 72(t) payments with the smallest IRA balance. This typically results in selecting either the amortization or annuitization method.

But what if a market downturn caused the balance of the IRA to severely decline, resulting in the annual 72(t) payments becoming a much larger percentage of the IRA balance? There is relief. IRS Revenue Ruling 2002-62 permits a one-time switch from either the amortization or annuitization methods to the RMD method. This may be appropriate in 72(t) situations where the IRA has shrunk due to a stock market downturn.

Note that if the switch is made to the RMD method, it is permanent until the end of the original 72(t) payment period. Any other changes would be considered a modification and result in retroactive penalties. Also, be aware that the entire IRA with the 72(t) payment can be converted to a Roth IRA. If the IRA has lost substantial value, converting the account during a market downturn could be a wise tax planning decision. Just be sure to continue with the same payment schedule.

Example 4: David, age 58, has been consistently taking 72(t) withdrawals from his IRA for three years under the amortization method. With the recent market downturn, his investments have lost considerable value. His required 72(t) payments are now eating up a much higher percentage of his account. To reduce the draw on his IRA, David elects to switch to the RMD method to calculate the remainder of his 72(t) payments. David must still adhere to the original 5-year payment period and can make no other modifications during that time.

> IRS Revenue Ruling 2002-62 permits a one-time switch from either the amortization or annuitization methods to the RMD method.

No Time to Panic

If market whiplash continues, keep in mind there are no deductions available for a loss on an IRA. If the stock market continues to decline and the value of IRAs and workplace plans follow suit, retirement account owners are not entitled to any tax benefits on the losses. The TCJA eliminated most of these miscellaneous itemized deductions.

In times of turmoil, it is also important to avoid costly rollover mistakes. Remember that non-spouse beneficiaries cannot do 60-day rollovers with inherited IRAs. Those dollars can only be moved via trustee-to-trustee transfer. Withdrawing inherited IRA dollars in frustration over poor performance or lack of communication from an inattentive advisor will only compound problems for a non-spouse beneficiary, leading to a fully taxable distribution error that cannot be corrected.

Now is no time to panic. Assess each specific situation individually and identify any possible opportunistic moves. Calmer heads will prevail. ■

Creditor Protection for Retirement Accounts

Most people count on their IRA and 401(k) (or other workplace plan) savings for a financially secure retirement. So, naturally there are fears that those funds may be lost if someone is forced to declare bankruptcy or winds up on the losing end of a civil lawsuit. Fortunately, there is usually some degree of creditor protection for retirement accounts. But the level of protection varies between IRAs and plans and between bankruptcy and general (non-bankruptcy) creditors. These differences arise because different creditor protection laws — *ERISA, the federal Bankruptcy Code or varying state laws* — may apply in any given situation.

Bankruptcy Protection for IRAs

First, the good news: In just about every case, IRA (traditional and Roth) assets are completely off limits from bankruptcy creditors. The federal Bankruptcy Code provides that "retirement funds" are exempt from creditors, and IRA dollars count as "retirement funds." Bankruptcy Code section 522(n) does impose a dollar limit on the amount of IRA funds that are free from creditors. That dollar limit is indexed every three years based on the cost-of-living. On April 1, 2025, the dollar limit increased from $1,512,350 to $1,711,975, effective through March 31, 2028.

Importantly, this dollar limit does **not** take into account amounts rolled over from employer plans like 401(k)s. (The rolled-over plan dollars are always fully protected under the Bankruptcy Code.) So, only IRA contributions and their earnings count towards the $1,711,975 limit.

Example 1: In 2024, Stevie retired from her job with a $1.0 million 401(k) account balance. She directly rolled over those dollars to her existing IRA, which had a balance of $1.5 million. In May 2025, Stevie files for bankruptcy. Her combined IRA has earned 10% since the rollover, bringing the total balance to $2.75 million. Stevie can exempt her entire IRA from bankruptcy creditors. This is because her IRA balance used for the bankruptcy exemption is $1.65 million ($2.75 million minus the $1.1 million of rolled-over funds and earnings on those funds), which is below the $1,711,975 limit.

IRAs did not become available until 1975. So, it would be unusual for someone to have amassed over $1.7 million from IRA contributions and earnings alone. But even if someone was lucky enough to be over the cap, he might still have two other ways to protect his IRA.

First, he may live in a state with its own law protecting all IRAs in bankruptcy — *no matter how large.* Second, he may live in a state with a law that shields his IRA funds from general (non-bankruptcy) creditors. In the 2022 case of *Hoffman v. Signature Bank of Georgia,* No. 20-12823 (11th Cir. 2022), a Georgia resident filed for bankruptcy. Georgia is a state that completely protects IRAs from garnishment. The Eleventh Circuit Court of Appeals ruled that the existence of the Georgia anti-garnishment law fully protects a resident's IRA dollars in bankruptcy. (Note, however, that this decision technically only affects residents of the Eleventh Circuit: Alabama, Florida and Georgia.)

The bankruptcy exemption for IRAs is only effective as long as the retirement account remains tax-exempt. If an IRA owner commits a prohibited transaction (e.g., self-dealing) with his IRA funds, the retirement account is no longer tax-exempt and loses its Bankruptcy Code protection. So, it is not surprising that bankruptcy creditors go to great lengths to scrutinize a bankrupt IRA owner's activities in order to identify a prohibited transaction.

Example 2: Lindsey has invested all of his IRA assets in rental property in the Cayman Islands. In 2025, he decides to take his family on a long vacation, and they stay at his rental property. Later that year, Lindsey is forced to file for bankruptcy and attempts to exempt his $1.6 million IRA from bankruptcy creditors. Those creditors can claim that Lindsey has committed a prohibited transaction by staying at the property owned in his IRA, thereby causing his retirement account to cease being an IRA. The creditors will be able to reach the $1.6 million.

What if someone dies and their IRA beneficiary declares bankruptcy? In 2014, the U.S. Supreme Court ruled unanimously that inherited IRAs are **not** protected from bankruptcy creditors. *Clark v. Rameker,* 573 U.S. 122 (2014). *The reason?* The Court found that inherited IRAs are not "retirement funds" under the Bankruptcy Code. Keep in mind that the *Clark* decision dealt only with the **federal** Bankruptcy Code. Some states do shield inherited IRAs under **state** bankruptcy law.

Bankruptcy Protection for Company Plans

Funds in workplace plans are also completely safe from bankruptcy creditors. That protection usually comes from the Employee Retirement Income Security Act (ERISA) for plans covered by that law. This was the decision of the Supreme Court in the 1992 case of *Patterson v. Shumate,* 504 U.S. 753 (1992). But even plan accounts not covered by ERISA (e.g., solo 401(k) plans) are off limits to bankruptcy creditors under the federal Bankruptcy Code since they are "retirement funds."

What if someone dies and their plan beneficiary declares bankruptcy? In the case of *In re Dockins,* No. 20-10119 (Bankr. W.D.N.C. June 4, 2021), a federal Bankruptcy Court followed the *Patterson* decision to rule that inherited ERISA plan funds are also shielded from bankruptcy creditors — *as long as the funds are still in the plan at the time of the bankruptcy filing.* (Technically, this decision only applies to residents in the Western District of North Carolina.)

Funds in workplace plans are also completely safe from bankruptcy creditors.

General Creditor Protection for IRAs

It gets more complicated when an IRA owner wants to protect her funds from general (non-bankruptcy) creditors who have a court judgment against her. This is not a bankruptcy situation, so the IRA owner gets no help from the federal Bankruptcy Code. She also is not aided by ERISA protection, since IRAs are not covered by ERISA.

Instead, IRA (both traditional and Roth) owners only receive whatever creditor protection is available in the state where they reside. There is no uniform state law protection.

Many states (e.g., Illinois, New Jersey, North Carolina and Texas) provide total protection for IRAs and Roth IRAs. Other states offer near-total general creditor protection, but carve out specific exceptions. For example, Florida allows ex-spouses under a qualified domestic relations order (QDRO) to reach the other spouse's IRAs. On the opposite side of the spectrum are states that limit general creditor protection only to the amount necessary for the support of the IRA owner (e.g., California and Missouri) or to a specific dollar amount (e.g., Virginia). In addition, some states, such as Ohio and Texas, specifically provide general protection for inherited IRAs.

General Creditor Protection for Company Plans

The ability of a company plan participant to exempt plan accounts from non-bankruptcy creditors depends on whether the plan is covered by ERISA. If it is covered by ERISA, then the funds are completely protected.

ERISA plans include:

- Most retirement plans sponsored by for-profit companies, including most 401(k) plans and defined benefit pension plans.
- 403(b) plans sponsored by not-for-profit companies (such as hospitals) if the company makes contributions to the plan.

ERISA plans do not include:

- Plans with no employees other than the owner (and the owner's spouse), such as a solo 401(k).
- 403(b) plans sponsored by not-for-profit companies (such as hospitals) if the company doesn't make contributions to the plan and its only involvement is administering employee deferrals.
- Plans sponsored by governments or churches, including the federal Thrift Savings Plan, 403(b) plans for teachers or church employees, and 457(b) plans for state and local municipal workers.

The ability of a company plan participant to exempt plan accounts from non-bankruptcy creditors depends on whether the plan is covered by ERISA.

Example 3: Dr. Love retires from his medical practice with a $2.5 million balance in his practice's 401(k) plan. The plan is covered by ERISA. Dr. Love is concerned about a malpractice lawsuit filed against him while he was still working. He lives in a state that does not completely protect IRA funds from general creditors. Dr. Love therefore decides to keep his funds in the 401(k) where it enjoys rock-solid ERISA protection.

What if the retirement plan is not covered by ERISA? Here again, general creditor protection depends on the law of the state of residence. In most states, the same creditor protection that applies to IRAs also applies to non-ERISA plans. But some states distinguish between the two. For example, Michigan provides near-total protection for IRAs against general creditors, but allows those creditors to seize non-ERISA plan assets.

General Creditor Protection for SEP and SIMPLE IRAs

SEP and SIMPLE IRA participants may have difficulty shielding their funds against general creditors. SEP and SIMPLE IRAs are technically considered ERISA retirement plans. However, ERISA appears to deny them the same rock-solid general creditor protection it gives to other employer plans. To make matters worse, ERISA preempts (disallows) any state laws that relate to ERISA retirement plans, including state creditor protection laws. So, SEP or SIMPLE IRA owners may have **neither** federal (ERISA) **nor** state protection. That is clearly the case for residents of Kentucky, Michigan, Ohio and Tennessee because the Sixth Circuit Court of Appeals (covering those states) has ruled that a Michigan law exempting SEP IRAs from creditor claims was preempted by ERISA. *Lampkins v. Golden*, 28 Fed. Appx. 409 (6th Cir. 2002). For residents of other states with SEP or SIMPLE IRA funds, their level of creditor protection is unclear.

When it comes to bankruptcy and creditor protection of IRAs and retirement plans, the varying levels of coverage are complex. Be sure to understand the safeguards afforded to each particular type of account, in order to help make wise financial decisions. ■

Top Tax Tactics for Retirees and Pre-Retirees

Guest IRA Expert

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Higher prices and volatile investment markets are worrying retired Americans, as well as those expecting to end their careers soon. Questions about the financial strength of Social Security and Medicare are difficult to ignore. Nevertheless, our firm continues to use savvy tax planning that can generate more cash flow and more confidence in enjoying a comfortable retirement.

Here is an example illustrating the strategies we have used with retirees and pre-retirees. Suppose a single taxpayer, whom we will call Walt, retired in 2018, at age 60. Now age 67, Walt has reported no earned income since then.

At retirement, Walt had about $800,000 in investment assets, including traditional IRAs, Roth IRAs, bank accounts, and various holdings in taxable accounts. Never married, Walt also owns a home, debt-free, valued at around $500,000. Assume that Walt's cash needs are low. Since retirement, he has lived on his savings, using the principal from his accounts.

Winning by Waiting

Given Walt's situation, how did we create a plan? Our first step was to begin a series of partial Roth IRA conversions soon after retirement. We also delayed Social Security for several years; with Walt drawing down his assets and no mortgage to pay, there was no need to start Social Security at age 62.

With scant income, sheltered by the standard deduction, Walt owed very little tax each year. We carefully calculated his Roth IRA conversions, so he generally owed zero tax while moving money from his traditional IRAs to the Roth side. In some years, a portion of the converted dollars were subject to the lowest 10% federal income tax rate. By waiting to do the Roth conversions until after age 59½, Walt avoided exposure to a potential 10% penalty tax for early distributions if taxes were withheld from the IRA.

As a result, Walt now has a Roth IRA that runs well into six figures. We plan to maintain this series of partial Roth IRA conversions for another three years, continuing to build that account. At age 70, Walt will start Social Security and receive the maximum amount for which he qualifies, considering his work history.

Our first step was to begin a series of partial Roth IRA conversions soon after retirement.

As of now, Walt's provisional income (PI), which is adjusted gross income plus tax-exempt interest income plus one-half of his Social Security benefits, is below the $25,000 threshold for single filers. If that continues to be the case, he would owe no income tax on his Social Security benefits.

Traditional IRA Tactics

Meanwhile, Walt still has substantial balances in his tax-deferred traditional IRAs. Assuming historic growth rates, he could owe meaningful amounts of tax on his required minimum distributions (RMDs) from his IRAs, once they take effect at age 73.

The next step in our plan for Walt is to have him begin qualified charitable distributions (QCDs) to his favorite charities each year, once he reaches age 70½, the earliest age for QCDs. These QCDs eventually will satisfy Walt's RMD obligation without generating income tax. Walt's PI also will remain low, thanks to the QCDs, so he expects to keep avoiding tax on his Social Security income.

We also encouraged Walt to obtain a long-term care (LTC) insurance policy, which he has done. At his relatively young age, and in his current acceptable state of health, he pays modest premiums for this coverage. If it turns out that Walt has out-of-pocket LTC expenses beyond the policy's coverage, he can take funds from his traditional IRAs and offset the resulting taxable income with an itemized medical expense deduction.

What else might we include in Walt's retirement plan? His investments in taxable accounts include some long-term holdings that have appreciated. In 2025, a single taxpayer with up to $48,350 in taxable income can take long-term capital gains at a 0% tax rate. Walt is consistently well below that taxable income number, so any further need for cash can be satisfied by taking gains on assets held longer than one year.

High Stakes

It is true that many consumers, including many of the people who use professional advisers, do not have the low income that Walt has, in our example. That said, Roth strategies can be very helpful for high-income and high-net-worth seniors as well.

For instance, many Social Security beneficiaries pay federal income tax on 85% of their benefits. A married couple getting $50,000 a year from Social Security might see $42,500 (85% of $50,000) subjected to federal income tax. A senior couple in the 24% tax bracket would owe more than $10,000 in tax on their Social Security benefits. If they can shift enough cash flow from traditional IRAs to Roth IRAs (reducing Provisional Income) so only 50% of their Social Security benefits are taxed, that would save over $4,000 in tax each year.

In addition, high-income seniors stand to benefit if they are tapping Roth IRAs rather than traditional IRAs for some of their spending in retirement. Qualified Roth IRA distributions (after age 59½ and a five-year holding period) are not included in taxable income so they do not count for the computation of higher Medicare premiums. Shifting enough income to drop from the second income-related monthly adjusted amount (IRMAA) tier to the first tier, for example, would save a couple over $3,000 a year for Medicare Part B and Part D premiums.

As of this writing, the relatively low tax rates established under the Tax Cuts and Jobs Act of 2017 (TCJA) remain in effect; higher rates are scheduled for 2026, with the TCJA sunset, but it is very possible the sunset will be postponed.

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Therefore, the years of modest tax rates on Roth IRA conversions might be extended. In 2025, for example, a married couple filing jointly can have up to $206,700 in taxable income (after deductions) and remain in the 22% federal tax bracket; with taxable income up to $394,600, couples are in the 24% bracket.

All that said, it is very likely that higher federal income tax rates will be installed in the future, considering the federal debt, strains on Medicare and Social Security, etc. People in their 50s and early 60s might be taking RMDs 30 or 40 years from now, at steep tax rates. Converting to Roth accounts now could be an excellent long-term strategy, with the possibility of no taxes in the future. Not only are qualified Roth distributions tax-free, Roth IRA owners never have RMDs.

Many are reluctant to pay income tax sooner than necessary, so they shy away from Roth conversions. That is frequently true with aging seniors, who might not have many years of tax-free distributions.

However, a pre-tax IRA that never goes beyond RMDs ultimately may be left to beneficiaries. If the recipients are younger loved ones, they might inherit the account while still in their prime earning years. Then they'll face a 10-year deadline for full account depletion, perhaps at the highest future tax rate.

If that is the case, beneficiaries will be stuck with a pre-tax IRA and accelerated RMDs. Inherited IRAs cannot be converted to Roth IRAs. For that reason, it can make sense for older traditional IRA owners to convert significant funds to Roth IRAs, if the conversion can be done in an appealing tax bracket. The money paid now for the conversion tax may turn out to be a welcome gift for next-gen Roth IRA beneficiaries.

What's more, the case for Roth IRA conversions at current tax rates is impressive. The current national debt is over $36.7 trillion, more than $323,000 per taxpayer, and growing!

Current tax rates are historically low and widely expected to head higher. Holders of tax-deferred accounts such as traditional IRAs and 401(k)s must pay the taxes eventually, so it's — *best to pay when the rates are low.*

At today's rates, taxes essentially are on sale....and everyone loves a sale!

Advisor Action Plan

- Urge those with extensive amounts in pre-tax retirement accounts to consider Roth conversions, especially while today's tax rates remain in effect.
- Go over prior tax returns to see how much can be converted, yet remain in a favorable tax bracket.
- Set a goal of reducing pre-tax traditional IRAs to the level where RMDs are fully or mostly sheltered by the standard deduction.
- Mention additional tax-efficient tactics such as using QCDs to cover RMDs, paying 0% tax on realized long-term capital gains, and offsetting investment gains with net zero capital losses. ■

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Don has been advising clients in the Baby Boomer and retirement market for over 20 years. He has helped over 1,000 families with their planning needs, advocating a holistic, educational approach to estate and retirement planning. In addition to building relationships with other professionals including attorneys, CPAs, insurance specialists and asset managers, Don is a member of Ed Slott's Master Elite IRA Advisor Group℠.

Don also hosts the *Your Money and Your Life Podcast* on Apple, Google, Spotify and Amazon. He and his wife Cathy have 4 children: Carly, DJ, Nick and Tori. They live in Freehold, NJ.

For more information or to learn more about Don, visit donaldcash.com.

Creditor Protection for Retirement Accounts

Type of Account	Bankruptcy Protection	Creditor Protection (Non-Bankruptcy)
Traditional IRA *(contributing dollars and earnings)*	*$1,711,975, based on federal inflation-adjusted cap	Protection based on individual state law
Roth IRA *(contributing dollars and earnings)*	*$1,711,975, based on federal inflation-adjusted cap	Protection based on individual state law
Funds rolled over to an IRA or Roth IRA from an employer plan *(e.g., funds from a 401(k), 403(b), SEP, SIMPLE, etc.)*	100% federal protection, even after rolling into an IRA	Protection based on individual state law
Inherited traditional or Roth IRA	No federal protection; state-level protection based on individual state law	Protection based on individual state law
SEP and SIMPLE IRA plans	100% federal protection	Protection based on individual state law *(may be disallowed by ERISA)*
ERISA plan	100% federal protection	100% federal protection
Solo 401(k) and other non-ERISA plans	100% federal protection	Protection based on individual state law

**Bankruptcy Code section 522(n) imposes a dollar limit on the amount of IRA funds that are free from creditors. That dollar limit is indexed every three years based on the cost-of-living.*

On April 1, 2025, the dollar limit increased from $1,512,350 to $1,711,975, effective through March 31, 2028.