

A FINANCIAL NORTH PARTNERS GUIDE

The Roth Conversion Playbook for 2026

Strategic tax planning moves to protect your retirement wealth before the window closes.

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✦ *"Taxes are regularly the single biggest expense for affluent Americans. A well orchestrated strategy of retirement distributions, Roth conversions, Social Security timing, and capital gains management could mean a smaller tax bill and more dollars for you and your loved ones."*

— Financial North Partners

Why Roth Conversions Matter Now

If you've spent decades diligently saving into a 401(k) or Traditional IRA, congratulations—you've built significant wealth. But here's what most people don't realize: **the IRS is your silent business partner**, and they own anywhere from 10% to 37% of your tax-deferred accounts.

Every dollar sitting in a Traditional IRA or 401(k) carries a deferred tax obligation. When you eventually withdraw those funds—whether voluntarily or through Required Minimum Distributions—you'll pay ordinary income taxes at whatever rate applies.

The core question:

Would you rather pay taxes on the seed, or on the harvest? A Roth conversion lets you pay today's known tax rates on a smaller balance—then let it grow tax-free forever.

The urgency in 2026 is driven by a convergence of factors: potential changes to the tax code, rising federal debt that makes future tax increases likely, and a limited window of historically favorable rates. For retirees and pre-retirees with significant pre-tax savings, the next few years represent a critical planning opportunity.

The Stakes Are Higher Than You Think

Consider this: a couple with \$2 million in Traditional IRAs who follows a conventional withdrawal strategy could pay over **\$1.2 million** in lifetime taxes. With a strategic Roth conversion plan, that number can be cut nearly in half—freeing hundreds of thousands of dollars for your family, your legacy, or the causes you care about.

This isn't about a single tax trick. It's about an **orchestrated, multi-year strategy** that considers your income trajectory, Social Security timing, Medicare premiums, estate plans, and the current tax landscape. That's exactly what this playbook will help you understand.

What Is a Roth Conversion?

A Roth conversion is the process of moving money from a tax-deferred retirement account (Traditional IRA, SEP IRA, SIMPLE IRA, or 401(k)) into a Roth IRA. You pay income taxes on the converted amount in the year of conversion, but from that point forward, the money grows tax-free and qualified withdrawals are tax-free.

Traditional IRA

- Tax-deductible contributions
- Tax-deferred growth
- Taxed upon withdrawal
- Subject to RMDs at age 73
- Government is your "partner"

Roth IRA ♦

- After-tax contributions
- Tax-free growth
- Tax-free withdrawals
- No RMDs for original owner
- 100% belongs to you

Three Ways to Convert

1

Rollover

Take a distribution from your Traditional IRA and deposit it into a Roth IRA within 60 days.

2

Trustee-to-Trustee Transfer

Direct one financial institution to transfer funds to your Roth IRA at another institution.

3

Same-Trustee Transfer

Move money between a Traditional and Roth IRA at the same financial institution—the simplest approach.

Key Insight

There is no limit to how much you can convert in a single year. However, strategic multi-year conversions—"filling up" lower tax brackets each year—typically produce the best outcomes. The goal is to pay taxes at lower rates now to avoid higher rates later.

The 2026 Tax Landscape

The Tax Cuts and Jobs Act (TCJA) of 2017 lowered income tax rates across nearly every bracket. While many of its individual provisions were originally scheduled to sunset after 2025, Congress changed the law in 2025 and made the current individual rate structure permanent. That said, many planners still believe tax rates could face upward pressure over the long term because of rising federal debt, deficits, interest costs, and demographic spending pressures.

- ✦ The national debt exceeds \$36 trillion and continues to grow
- ✦ Social Security and Medicare face projected funding shortfalls
- ✦ Interest payments on federal debt are now the largest budget line item
- ✦ An aging population means fewer workers supporting more retirees

New Complexity: Income-Based Phase-Outs

The One Big Beautiful Bill Act (OBBBA) introduced a number of new income-based phase-out zones that add layers of complexity beyond simple tax brackets. These include the enhanced standard deduction for seniors age 65+, IRMAA surcharges on Medicare premiums, and the SALT deduction cap—each with its own income thresholds and cliffs.

Many of these phase-outs are based on **Modified Adjusted Gross Income (MAGI)**, which can differ significantly from taxable income or AGI. This makes precise conversion planning more important—and harder to do on your own. A well-calibrated Roth conversion strategy accounts for all of these breakpoints, not just the federal tax brackets.

2026 Tax Brackets: Married Filing Jointly

Tax Rate	Taxable Income Range	Bracket Width
10%	\$0 – \$23,850	\$23,850
12%	\$23,851 – \$96,950	\$73,100
22%	\$96,951 – \$206,700	\$109,750
24%	\$206,701 – \$394,600	\$187,900
32%	\$394,601 – \$501,050	\$106,450
35%	\$501,051 – \$751,600	\$250,550
37%	\$751,601+	—

The Window Is Open—For Now

If current rates are extended, you still benefit from converting while your income is lower in early retirement. If rates go up, you'll have locked in today's lower rates. Either way, strategic conversion in 2026 is a heads-you-win scenario.

Three Tax Landmines in Retirement

Most retirees don't realize they're sitting on a ticking tax time bomb. Here are three landmines that Roth conversions can help you defuse:

1 Required Minimum Distributions (RMDs)

Starting at age 73, the IRS mandates you withdraw—and pay taxes on—increasing percentages of your tax-deferred accounts each year. As your balances grow, so do your RMDs, potentially pushing you into higher tax brackets and increasing Medicare premiums through IRMAA surcharges.

↳ *By your late 70s, RMDs can force you to withdraw more income than you actually need to live on.*

2 The Widow's Penalty

When one spouse passes away, the surviving spouse must file as single—with tax brackets roughly half the size of married filing jointly. This means the same RMDs that were manageable as a couple suddenly get taxed at much higher rates.

↳ *A surviving spouse can see their effective tax rate nearly double overnight.*

3 The Beneficiary Tax Bomb

Under the SECURE Act, most non-spouse beneficiaries must withdraw all inherited IRA funds within 10 years. For adult children in their peak earning years, these forced distributions stack on top of their own income, often at the highest marginal rates.

↳ *Your heirs could lose 30-40% of their inheritance to federal and state taxes.*

+ How Roth Conversions Neutralize All Three

By strategically converting pre-tax balances to Roth during lower-income years, you reduce future RMDs, protect a surviving spouse from bracket shock, and leave tax-free assets to your beneficiaries. It's the single most effective tool for comprehensive retirement tax planning.

The Power of Strategic Conversions

The following case study is hypothetical and for illustrative purposes only. Individual results will vary.

Meet Robert & Catherine

Ages: Robert (64), Catherine (63)
Pre-tax IRAs/401(k): \$1,900,000
Roth IRAs: \$200,000
Social Security: Starting at age 70

Status: Recently retired
Taxable brokerage: \$400,000
Annual spending: \$120,000 after-tax
Total nest egg: \$2,500,000

Two Strategies Compared

Strategy A: Conventional

Withdraw from taxable accounts first, then tax-deferred, then Roth last. No proactive conversions.

\$1,275,000
Estimated lifetime taxes
18.4% average tax rate

Strategy B: Roth Conversions ♦

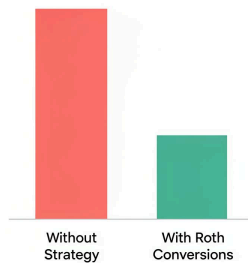
Same withdrawal order, plus annual Roth conversions filling the 24% tax bracket.

\$644,000
Estimated lifetime taxes
11.2% average tax rate

Estimated Tax Savings: \$631,000

That's like giving a \$600,000+ tip to the government if you don't plan strategically.

Tax Savings Comparison



*Hypothetical illustration. Assumes 5.7% inflation-adjusted returns, straight-line growth, and current tax brackets. Actual results vary based on individual circumstances. Financial North Partners does not provide tax or legal advice.

The Optimal Conversion Strategy

Roth conversions aren't one-size-fits-all. The key to maximizing their benefit is **strategic bracket management**—converting just enough each year to fill lower tax brackets without pushing into unnecessarily high rates.

The "Fill the Bracket" Approach

STEP 1

Calculate your projected taxable income

Include Social Security, pensions, investment income, and any part-time earnings.

STEP 2

Identify the gap to the top of your target bracket

For most retirees, the 22% or 24% bracket is the sweet spot.

STEP 3

Convert that exact amount

Move funds from your Traditional IRA to your Roth IRA to fill the remaining bracket space.

STEP 4

Pay taxes from non-retirement funds

Use taxable brokerage or savings to cover the tax bill—never pay the tax from the converted amount itself.

STEP 5

Repeat annually

Reassess each year as income and tax law evolve. The prime years are typically the gap between retirement and RMD age (73).

Why Keep Some Pre-Tax Savings?

It's rarely optimal to convert everything. Maintaining some pre-tax balances provides flexibility for:

- Small RMDs taxed at the lowest brackets (10-12%)
- Medical expense deductions (amounts exceeding 7.5% of AGI)
- Qualified Charitable Distributions (QCDs) that offset RMDs
- Charitable bequests from pre-tax accounts at death

The 5-Year Rule & Key Regulations

While Roth conversions offer tremendous benefits, there are important rules you need to understand to avoid penalties and maximize your outcome.

The 5-Year Rule Explained

Each Roth conversion has its own 5-year clock. If you withdraw converted funds before 5 years have passed *and* before age 59½, you'll face a 10% early withdrawal penalty on the converted amount. The clock starts January 1 of the year you convert.

Example

Convert in November 2026 → 5-year clock starts Jan 1, 2026 → Penalty-free after Jan 1, 2031

Key Exception

If you're over 59½ at withdrawal, the 10% penalty does not apply—even if the 5-year period hasn't elapsed.

Essential Rules at a Glance

- **No Income Limits on Conversions**

Unlike Roth IRA contributions, there is no income ceiling for conversions. High earners can and should convert through a 'backdoor' strategy.

- **No Conversion Limits**

You can convert any amount in any year. The only constraint is the tax bill you're willing to absorb.

- **No Undoing a Conversion**

Since 2018, the ability to 'recharacterize' (undo) a Roth conversion has been eliminated. Once converted, it's permanent.

- **Report on Form 8606**

Every conversion must be reported on IRS Form 8606 with your annual tax return.

- **Pro-Rata Rule**

If you have both deductible and non-deductible IRA balances, conversions are taxed proportionally across all your Traditional IRA assets—not on a FIFO basis.

2026 Roth IRA Contribution Limits: \$7,500/year (\$8,600 if 50+). Phase-out for single filers: \$153,000–\$168,000. Married filing jointly: \$242,000–\$252,000. These limits apply to direct contributions only—not conversions.

Who Should (and Shouldn't) Convert

✓ Strong Candidates

- Recently retired with lower current income than future RMD income
- Significant pre-tax IRA/401(k) balances (\$500K+)
- Taxable savings available to pay the conversion tax bill
- Long time horizon (10+ years before needing converted funds)
- Desire to leave tax-free assets to heirs
- Belief that tax rates will rise in the future
- High-income earners using backdoor Roth strategies
- In a year with unusually low income (sabbatical, career change)

✗ Think Twice If...

- You're already in the highest tax bracket and expect to be in a lower one later
- You'll need the converted funds within 5 years (and are under 59½)
- You don't have non-retirement funds to pay the tax bill
- You're charitably inclined and can use QCDs from Traditional IRAs
- You expect significant medical expenses that could offset income
- You're very close to Medicare enrollment and a conversion could spike IRMAA premiums

Important: None of the above are necessarily deal breakers. For example, it can still make sense to do Roth conversions even if you only have Traditional IRA money to pay the tax—it's just a little less efficient. The key is running the numbers in the context of your full financial picture.

The Decision Framework

A Roth conversion makes sense when your answer is "yes" to most of these:

- | | |
|---|---|
| <input type="checkbox"/> Is your current tax rate lower than your expected future rate? | <input type="checkbox"/> Do you have 10+ years for converted funds to grow tax-free? |
| <input type="checkbox"/> Can you pay the conversion tax from non-retirement assets? | <input type="checkbox"/> Do you want to reduce or eliminate future RMDs? |
| <input type="checkbox"/> Is leaving tax-free money to heirs a priority? | <input type="checkbox"/> Are you comfortable with the permanent nature of a conversion? |

Every situation is unique. The optimal strategy depends on your complete financial picture—which is why working with a qualified financial advisor who understands tax-smart distribution planning is essential.

Your Next Steps

If you've read this far, you understand that Roth conversions aren't just a tax strategy—they're a wealth preservation strategy that can save you hundreds of thousands of dollars and create a lasting legacy for your family.

But understanding the concept is only the beginning. **Execution requires precision**—the right amount, at the right time, in the right tax brackets, coordinated with your complete financial picture.

1

Fit Meeting

An informal conversation to learn about your goals and see if we're the right match.

2

Exploration

A deep dive into your finances, priorities, and the details that shape your plan.

3

Roadmap

Your customized financial roadmap with clear recommendations and a plan of action.

Schedule Your Complimentary Fit Meeting

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