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Project: Roth A Nation

Roth IRA Conversion Break-Even Estimate

For a **40-year-old** joint filer in the 22% tax bracket converting $100,000 from a traditional IRA to a Roth IRA, here's how the break-even analysis typically works:

40 Year Old

Key Assumptions

- Conversion amount: $100,000
- **Tax cost**: $22,000 (22% of $100,000)
- Annual growth rate: ~6–7%
- **Withdrawal age**: 59½ or later (to avoid penalties)
- No state income tax (or it's negligible)
- No immediate need for the funds

Break-Even Timeline

The break-even point is when the **tax-free growth in the Roth IRA** surpasses the **initial tax cost** of the conversion. Typically:

- **At 6–7% annual growth**, the Roth IRA would need about **7–9 years** to grow enough to offset the $22,000 tax hit.
- After that, all future growth and withdrawals are tax-free, which can be a major advantage, especially if tax rates rise or if the account grows significantly.

Factors That Can Shorten or Lengthen Break-Even

- Shorter break-even if:
    - You pay taxes from outside funds (not from the IRA itself).
    - You expect higher future tax rates.
    - You live in a state with no income tax.
- Longer break-even if:
    - You use IRA funds to pay the conversion tax.
    - You expect lower future tax rates.
    - You need to access the funds early.

Analysis

50 Year Old

If you wait until you're **50** to convert a $100,000 traditional IRA to a Roth IRA, and you:

- Are in the 22% tax bracket,
- Pay the **$22,000 tax** from outside funds,
- Let the Roth IRA grow at **7% annually**,
- Begin withdrawals at **age 59½**,

Then the **break-even period** is approximately **3 years**.

After that point, the Roth IRA will have grown enough to offset the tax cost, and all future growth and withdrawals will be tax-free—making it a potentially strong long-term move.

Analysis

60 Year Old

If you wait until you're **60** to convert a $100,000 traditional IRA to a Roth IRA, under the same conditions:

- 22% tax bracket
- $22,000 tax paid from outside funds
- 7% annual growth rate
- Immediate eligibility for penalty-free withdrawals

Then the **break-even period** is still approximately **3 years**.

This means the Roth IRA will grow enough in about 3 years to offset the tax cost, after which all future growth and withdrawals are tax-free. Since you're already past 59½, you also gain flexibility in accessing the funds without penalties.

Analysis

70 Year Old

For a **70-year-old joint filer** converting a $100,000 traditional IRA to a Roth IRA:

- 22% tax bracket
- $22,000 tax paid from outside funds
- 7% annual growth rate
- Immediate access to funds without penalties

The **break-even period** is still approximately **3 years**.

This consistency across ages (40, 50, 60, 70) is due to the fact that the break-even calculation is based on **growth rate vs. tax cost**, not age. However, age does affect other strategic considerations like required minimum distributions (RMDs) and estate planning.

Analysis

80 Year Old

For an **80-year-old joint filer** converting a $100,000 traditional IRA to a Roth IRA:

- 22% tax bracket
- $22,000 tax paid from outside funds
- 7% annual growth rate
- Immediate access to funds

The **break-even period** is approximately **3 years**, just like for younger ages.

This consistency is because the break-even calculation is purely based on **growth vs. tax cost**, not age. However, at age 80, other factors like estate planning, required minimum distributions (RMDs), and longevity expectations become more relevant in deciding whether a Roth conversion is beneficial.

Analysis

90 Year Old

For a **90-year-old joint filer** converting a $100,000 traditional IRA to a Roth IRA:

- 22% tax bracket
- $22,000 tax paid from outside funds
- 7% annual growth rate
- Immediate access to funds

The **break-even period** is still approximately **3 years**.

While the math remains consistent, the decision at age 90 should weigh more heavily on factors like:

- Life expectancy
- Estate planning goals

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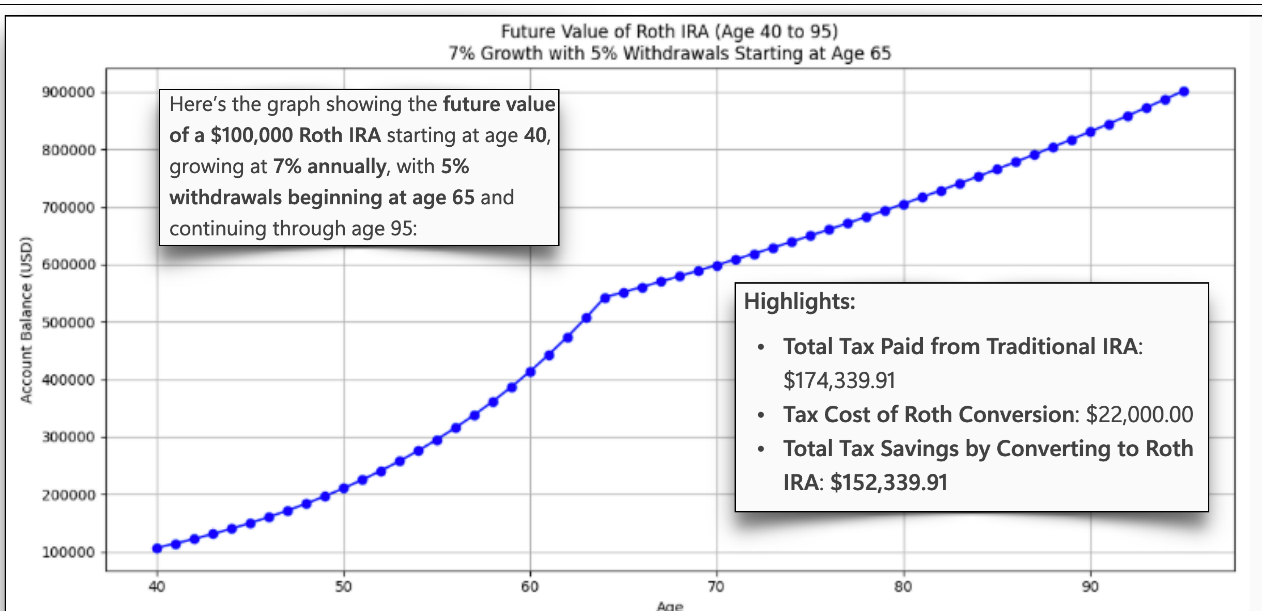

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Here's a visual comparison of how a **Roth IRA** and a **Traditional IRA** perform from age **40 to 95**, assuming:

- **$100,000 starting balance**
- **7% annual growth**
- **5% annual withdrawals starting at age 65**
- **22% tax rate on Traditional IRA withdrawals**

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