A 3 OAKS PARTNERS INVESTMENT COUNSEL RESOURCE

The Roth IRA Conversion Tripwires

Nine ways IRA millionaires overpay on the way to tax-free, and the arithmetic that tells you which ones are yours.

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Everyone was told to convert before 2026.
Then the law changed.

For most of the last decade, the case for Roth conversions came with a deadline attached. The 2017 tax cuts were scheduled to expire after 2025, brackets were going to snap back to higher rates, and the advice wrote itself: convert now, before the window shuts. That deadline is gone. The law passed in July 2025 made the current seven brackets permanent. There is no scheduled rate increase left to race.

What did not change is the reason conversions were ever worth considering. A traditional IRA is a partnership in which your partner sets his share later, and takes it on a balance that has been compounding for thirty years. Required minimum distributions begin at 73 or 75 whether you need the money or not, and they arrive stacked on top of Social Security, pensions, and whatever else you have built.

What replaced the old deadline is narrower and more specific: three windows that carry real expiration dates, and a set of income thresholds that quietly punish getting the *size* of a conversion wrong. That distinction matters more than most people realize. The expensive mistakes in Roth planning are rarely the decision to convert. They are converting one bracket too far, in the wrong year, with the tax paid from the wrong account.

Conversion decisions are one part of what we call a Multi-Decade Tax Strategy: putting the right assets in the right account types, filling the right brackets in the right years, and managing what required distributions and Medicare surcharges will do to your income later. This guide covers the conversion piece.

> ### *How to use this*
>
> The first half lays out the windows and the arithmetic, using a household not unlike yours. The second half is nine tripwires, each with a box to check. For each one, ask yourself: could I put a dollar figure on my answer? Not a general sense, an actual number. If yes, check the box. If you have never been asked, or the honest answer is that your accountant handles it, leave it blank. A blank is not a mistake. It is a decision being made without being priced.

Three Windows That Actually Have Dates

The permanent brackets removed the urgency everyone was selling. These three replaced it, and unlike the old deadline, these expire on schedule.

1

The gap years

CLOSES THE YEAR YOUR REQUIRED DISTRIBUTIONS BEGIN, AT 73 OR 75

Between the last day of work and the first required distribution, most households pass through the lowest-taxed decade of their adult lives. Wages have stopped, Social Security may be deferred, and the IRA has not yet been forced open. If you were born in 1960 or later, required distributions wait until 75, which makes this window longer than most people assume. Longer means larger, not later. Every year you skip is capacity you do not get back.

2

The senior deduction

AVAILABLE 2025 THROUGH 2028 ONLY

A deduction of $6,000 per person age 65 and older, $12,000 for a couple who both qualify, stacked on top of the standard deduction. It phases out between $150,000 and $250,000 of income for joint filers ($75,000 to $175,000 single), and it disappears entirely after 2028 unless Congress acts. For a household that keeps income under the threshold, this is four years of cheaper conversion capacity.

3

The expanded SALT cap

REVERTS TO $10,000 AFTER 2029

The cap on deducting state and local taxes is $40,400 in 2026. It was $10,000 through 2024, and it returns to $10,000 for tax years after 2029. It also phases down by 30 cents per dollar of income above $505,000. If you itemize, this cuts both ways: more room now, and a penalty for a conversion large enough to cross that line.

The clock most people miss

Medicare premiums are set from the tax return filed two years earlier. The income you report at 63 determines what you pay at 65. A conversion is not only a tax event in the year you make it. It is a premium event two years later. Plan the sequence, not the single year.

What the Arithmetic Actually Looks Like

A hypothetical couple, and the $25,600 that costs far more than they think.

Tom and Susan are both 64. He retired last year, she followed in June. They have $1.4 million in a traditional IRA, $350,000 in a taxable account, and $180,000 already in a Roth. They are delaying Social Security to 70. Apart from a conversion, their 2026 income is about $12,000 of interest. Their accountant tells them to fill the 22% bracket. That advice is close to right, and the gap between close and right is where the money goes.

The last slice of a "22%" conversion

2026 CONVERSION	FILL THE 22% BRACKET	STOP BELOW THE MEDICARE LINE
Amount converted	$231,600	$206,000
Adjusted gross income	$243,600	$218,000
Federal income tax for the year	$35,932	$30,300
Medicare surcharge triggered in 2028	**$2,297**	$0
True cost of the extra $25,600		**$7,929, an effective rate of 31.0%**

Illustrative only. Assumes 2026 federal rates, married filing jointly, the standard deduction, and no state income tax. The Medicare figure is the 2026 first-tier surcharge for two people across Parts B and D, applied in 2028 under the two-year lookback. The $218,000 line shown is also a 2026 figure; the thresholds that will govern 2028 premiums are indexed and will be higher, which is precisely why the target has to be re-estimated each year rather than assumed. Modified income here means adjusted gross income plus tax-exempt interest.

The last $25,600 they converted was taxed at 22% by the IRS and at 31% by reality. Nothing in the tax code announces this. The surcharge arrives two years later, on a different bill, from a different agency.

The Other Half of the Ledger

Converting carefully costs money. Not converting at all costs more.

It would be easy to read the previous page as an argument against converting. It is not. The same household, left alone, walks into a larger problem at 75.

Why they should still convert: the cost of doing nothing

AT AGE 75	LEAVE THE IRA ALONE	SIX YEARS OF CONVERSIONS
Traditional IRA balance	$2,657,000	$619,000
First required distribution	**$108,000**	$25,200
Taxable whether they need it or not	Every year, for life, on top of Social Security	

Illustrative only. Assumes a 6% annual return, six annual conversions of $206,000 taken at the start of each year from age 64 through 69, no other withdrawals, and the IRS Uniform Lifetime Table divisor of 24.6 at age 75. Conversions made later in each year would leave a larger balance and a larger distribution. Actual results will differ; returns are not guaranteed.

A $108,000 required distribution is not a windfall. It is income they did not ask for, arriving on top of Social Security, pushing them into a higher bracket and very likely past a Medicare threshold, every year, for the rest of their lives. The distribution also lands on a balance they can no longer control, because the decision window closed at 75.

Both facts are true at once. Converting is the right call for this household, and the enthusiastic version of it costs them thousands. Sizing is the entire game, and the nine tripwires that follow are where sizing goes wrong.

> ### *Where the tax money comes from*
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> A conversion is only as good as the cash that pays for it. In our client portfolios, that cash comes from the War Chest, the short-duration reserve we hold so that neither a market decline nor a tax bill forces a sale of long-term holdings. If a conversion would require selling growth assets or raiding the IRA itself to pay the tax, it is usually too large.

The Nine Tripwires

Check the box only if you can put a dollar figure on your answer.

1 The pro-rata rule

In plain terms: if you have money in a rollover IRA, the "tax-free" backdoor Roth you were told about probably is not.

COST: TAX ON MOST OF A CONTRIBUTION YOU BELIEVED WAS TAX-FREE

A backdoor Roth looks simple: contribute to a traditional IRA after tax, convert it, done. But the IRS aggregates every traditional, SEP, and SIMPLE IRA you own as of December 31 and treats them as one account. If 90% of that combined balance is pre-tax, then 90% of your conversion is taxable, no matter which account the money physically left. A $7,500 backdoor contribution alongside a $700,000 rollover IRA is not a tax-free maneuver. Rolling pre-tax balances into an employer 401(k) first is the usual fix, and it has to happen before year end.

> ☐ **I know my total pre-tax IRA balance as of December 31, and it is either zero or deliberate.**

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2 The Medicare cliff

In plain terms: one extra dollar of income can raise your Medicare premiums for an entire year.

COST: $2,297 FOR A COUPLE, FOR A SINGLE DOLLAR *and it repeats at every tier*

Medicare's income-related surcharge is not a phase-in. It is a cliff. In 2026 a couple pays nothing extra at or below $218,000 of modified income, and $2,297 for the year at $218,001, counting both spouses across Parts B and D. Cross the next line at $274,000 and it becomes $5,770 for the year. The surcharge is set from the return you filed two years earlier, so a conversion made today lands on a premium notice you will not see until the year after next, long after the decision feels settled.

> ☐ **I know which surcharge tier my conversion lands in, and that this year's income sets my premium two years out.**

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3 The senior deduction phase-out

In plain terms: if you are 65 or older, converting past a certain point raises your real tax rate without telling you.

COST: A 22% BRACKET THAT BEHAVES LIKE 24.6% *only through 2028*

If you are 65 or older, the $6,000 senior deduction phases out at 6 cents per dollar of income above $150,000 for a couple, or $75,000 single. Where *both* spouses qualify it is 12 cents per dollar, so taxable income rises $1.12 for every dollar converted, and the band runs to $250,000. A conversion you believe is costing 22% is costing about 24.6%. In the 24% bracket, about 26.9%. With only one spouse 65 or older it is half that, roughly 23.3% and 25.4%. Below the band, this is the cheapest conversion capacity available to you. Inside it, the sticker price is wrong.

- [ ] **If either of us is 65 or older, I know whether our conversion falls inside the senior deduction phase-out band.**

4 The SALT phase-down

In plain terms: a large conversion in one year can quietly cost you a deduction you were counting on.

COST: A 35% BRACKET THAT BEHAVES LIKE 45.5% FOR ITEMIZERS

The state and local tax deduction is capped at $40,400 in 2026, but the cap shrinks by 30 cents for every dollar of income above $505,000, down to a floor of $10,000. For a household that itemizes and has the full $40,400 of state and local tax to claim, a conversion crossing that line is taxed at its stated bracket *plus* the value of the deduction it destroys: roughly 41.6% in the 32% bracket and 45.5% in the 35%. The effect runs from $505,000 to about $606,000, where the deduction reaches its floor and stops falling. This is the tripwire that catches the still-working high earner who decides to get the conversion over with in a single year.

- [ ] **If I itemize and a conversion would push me past $505,000, I have priced the SALT deduction I would lose.**

5 Retiring before 65 on a marketplace plan

In plain terms: if you retire before Medicare starts, a conversion can cost you your entire health insurance subsidy.

COST: PREMIUM CREDITS WORTH MORE THAN THE TAX YOU WERE MANAGING

Retire at 62 and you have three years to cover before Medicare. If that coverage comes from a marketplace plan, your premium assistance is calculated from the same income a conversion inflates. The enhanced credits of recent years expired at the start of 2026, restoring a hard cliff at 400% of the federal poverty level, roughly $84,600 for a two-person household. One dollar over and the entire year's credit is gone, with no repayment cap to soften it. Households in this position routinely find a conversion costs more in lost credits than it saves in future tax. Sometimes the answer is to convert anyway, sometimes to wait until 65. It is not a decision to make without running both.

- [ ] **If I am on a marketplace plan before Medicare, I have tested the conversion against my premium assistance.**

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6 Paying the tax out of the IRA

In plain terms: pay the tax with outside cash, or the conversion works against you.

COST: THE CONVERSION SHRINKS ITSELF, AND BEFORE 59½, ADDS A 10% PENALTY

Withholding the tax from the conversion is convenient and it undercuts the whole exercise. Every dollar sent to the IRS is a dollar that never reaches the Roth, never compounds tax-free, and cannot be replaced, because contribution limits do not care that you meant well. Under age 59½, the withheld portion is treated as a distribution you kept, which can carry a 10% penalty on top of the tax. Conversions work when outside money pays the bill, which is one of the jobs the War Chest is built to do. If there is no outside money, the conversion is usually too large.

- [ ] **I have non-retirement cash set aside to pay the conversion tax, and I know the amount.**

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7 The two five-year clocks

In plain terms: converted money is not immediately spendable, and the rules are not what most people assume.

COST: A PENALTY ON MONEY YOU ALREADY PAID TAX ON

There are two clocks, and they are not the same clock. One runs from your first Roth contribution and governs whether *earnings* come out tax-free. A separate one starts with each individual conversion and governs whether that converted principal can be withdrawn penalty-free before 59½. Convert at 56, spend it at 59, and you can owe a 10% penalty on money that was already taxed at conversion. For anyone converting in their fifties with plans to spend it in their early sixties, this is the detail that turns a sound strategy into an expensive one.

> ☐ **I know the date each converted dollar becomes fully available to me without penalty.**

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8 Converting one bracket too far

In plain terms: the most common mistake is converting too much, not too little.

COST: A CERTAIN TAX TODAY FOR A PROJECTED BENEFIT THAT MAY NEVER ARRIVE

This is the most frequent error and the least discussed, because it does not feel like an error. The tax on a conversion is certain, paid now, in cash. The benefit is a projection about your future bracket, your future balance, and future law. Convert into a bracket higher than the one you would actually face in retirement and you have prepaid at a premium for the privilege of tax-free growth. The correct size is the number of dollars that fills your target bracket this year: a specific figure, calculated in the fourth quarter when your income is known, not an ambition set in January.

> ☐ **I know the exact dollar amount that fills my target bracket this year, and my conversion stops there.**

9 Ignoring who survives, and who inherits

In plain terms: this is a decision about whose tax bracket pays, and it may not be yours.

COST: YOUR HEIRS' BRACKET, APPLIED TO YOUR BALANCE

Two dates move this math more than any bracket table. The first is the year after one spouse dies: the survivor files single, on brackets roughly half as wide, usually with similar income. The second is inheritance. Children who inherit a traditional IRA generally must empty it within ten years, which lands squarely in their highest-earning decade, at their rates, in their state. A Roth inherited under the same ten-year rule comes out without the tax bill. Converting is, in part, a decision about whose bracket pays: yours at 68, your spouse's at 79, or your daughter's at 52.

- [ ] **I know what this IRA would cost my spouse as a single filer, and what it would cost my children.**

COUNT YOUR CHECKED BOXES

8–9

Priced and deliberate

You are converting with the arithmetic in front of you. A second set of eyes is still worth having on sequencing and survivor scenarios.

4–7

Right idea, unpriced

The strategy is sound and the execution is running on assumptions. This is where most of the avoidable cost lives.

0–3

Converting blind

Either conversions are happening without analysis, or a window is closing unused. Both are expensive, in opposite directions.

> ### *If most of these were blank*
>
> That is the normal result, and it is not a comment on you. These questions sit in the seams between professionals. Your accountant files the return you already caused. Your advisor manages the portfolio. No one owns the decision about which bracket to fill in which year. The seams are exactly where the money is lost, and they are the cheapest thing to fix.

THE 2026 FIGURES, IN ONE PLACE

Roth IRA contribution limit	$7,500, plus $1,100 catch-up at 50 and older
Roth contribution income phase-out	$153,000–$168,000 single · $242,000–$252,000 joint
Income limit on *conversions*	None. No income or dollar cap
Standard deduction, married filing jointly	$32,200, plus $1,650 per spouse age 65 and older
Senior deduction, through 2028	$6,000 per person 65+, phases out $150,000–$250,000 joint
Top of the 22% bracket, joint	$211,400 of taxable income
Top of the 24% bracket, joint	$403,550 of taxable income
First Medicare surcharge tier, joint	$218,000 of modified income, from your 2024 return
Standard Medicare Part B premium	$202.90 per month
SALT deduction cap	$40,400, phases down above $505,000, floor of $10,000
Required distributions begin	Age 73 if born 1951–1959 · age 75 if born 1960 or later
Roth IRA required distributions	None during the original owner's lifetime

Figures reflect federal law and IRS inflation adjustments for tax year 2026 as published, current as of August 2026. Thresholds are indexed and change annually. State income tax is not reflected.

Your next step

Find out which tripwires are yours.

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IN THAT CONVERSATION, WE WILL:

- Put a dollar figure on the conversion that fits your bracket this year
- Map the years between now and your first required distribution, including Medicare and survivor scenarios
- Tell you plainly if converting is not worth it in your situation, an answer more common than the industry admits

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