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Beyond RMDs: Strategies for IRA owners and beneficiaries

Modern retirement monthly

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- As implied by the name, **required minimum distributions (RMDs)** are withdrawals that you have to take from your retirement accounts beginning at a certain age.
- Like other retirement account withdrawals, RMDs are typically taxed as ordinary income, regardless of whether you are spending the funds or reinvesting them. RMDs can be especially problematic if you have a larger retirement account balance, because larger IRAs lead to larger distributions, which can push your income into a higher tax bracket, dampening the after-tax growth potential of your retirement accounts.
- In this report, we describe three IRA distribution strategies to help you improve the after-tax growth potential of your retirement account assets. Together, these strategies can help you reduce the tax cost of funding your retirement, help you keep your retirement savings from being depleted during your lifetime, and help you make a bigger impact on the people and causes that you care about.



Consult your tax advisor concerning the tax consequences of any investment strategy that you are contemplating. Neither UBS Financial Services Inc nor any of its employees provide tax or legal advice.

In this report, we will focus on opportunities to help you reduce the "tax drag" on your retirement assets in order to harness the full potential power of compounding growth. Your retirement assets can help us to accomplish this goal in two main ways:

#1 Defer taxes. When you make a deductible contribution to your Traditional IRA or 401(k) account, this reduces your taxable income for the tax year that you make the contribution. These pretax dollars will grow in your account untaxed until you withdraw them (and the investment growth they created) in retirement, at which point they will be taxed as income. Thus, deductible contributions can help you reduce your taxable income today, but they will also increase your taxable income in the future.

#2 Reduce your tax rate. Deferring taxes does not, on its own, enhance your after-tax wealth potential. Deductible contributions will only help you to save on taxes over the long run if your tax rate today is higher than it will be in the future when you make a distribution or a Roth conversion.

The federal income taxes are calculated using a progressive marginal income tax system, applying a higher tax rate for more taxable income in a given tax year. Therefore, when it comes to managing contributions to and distributions from your retirement accounts, the strategy for managing taxes is straightforward: Spread your taxable income over as many years as possible.

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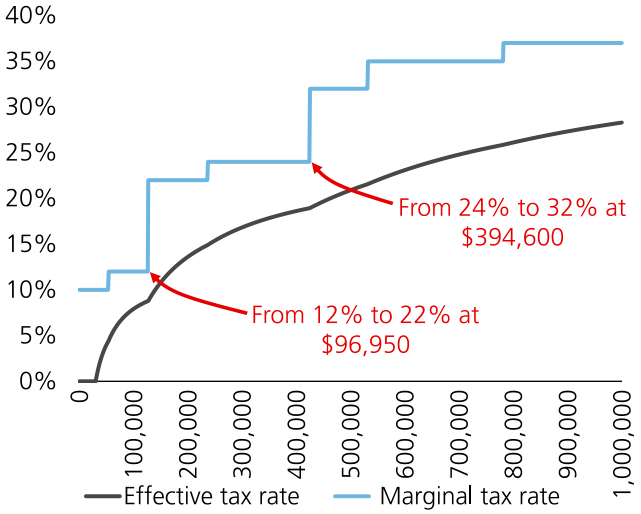
There are several breakpoints in the marginal income tax rates (Fig. 1). You can use these breakpoints to your advantage by timing deductible contributions to stay out of higher tax brackets and timing taxable distributions/ conversions to "fill up" lower tax brackets in years when you have lower taxable income.

Fig. 1: Moving distributions to low-income years can help you reduce your taxes

Marginal and effective tax rates (2025), married filing jointly



Source: IRS, UBS. Assumes a standard deduction of $30,000 and does not include FICA taxes or any state taxes.

As an example of how spreading your income across multiple years can help to reduce your tax burden, let's consider your tax burden if your gross income is $200,000:

- If this taxable income is concentrated in one tax year, your last dollar will be in the 22% tax bracket (assuming married filing jointly), after taking the standard deduction ($30,000). You will pay approximately $27,200 in federal taxes, which is an effective tax rate of 13.6%.
- If this income is spread across two tax years (e.g., $100,000 per year), your taxable income would go no further than the 12% tax bracket. Your federal tax would be approximately $7,900 each year ($15,800 for both years combined), which is an effective tax rate of 7.9%. You have saved $11,400 on federal taxes.

In addition to managing your federal tax bracket, you should also consider the impact that state taxes may have on your retirement savings. If you are planning to retire in a state with a lower income tax than you live in today, this enhances the potential value of deductible contributions.

On the other hand, it is likely that tax rates will go higher—especially on families with higher levels of taxable income—so we would recommend against deferring too much income to your retirement years. Maintaining tax diversification—spreading your retirement assets between tax-deferred, tax-exempt, and taxable accounts—will give you more options to manage your taxable income in retirement while still receiving the income that you need to fund your spending. For guidance on how to spread your savings across tax treatments, please see "Where should I put my savings?: 2025 savings waterfall worksheet."

What if taxes go higher?

Many investors are often concerned with the future of taxes and how certain changes may impact their personal tax burden. In this podcast, we discuss why it's more important to focus on the areas of your financial plan you can control, unlike government policy: Top of the Morning: Strategies to improve your after-tax wealth potential.

How can I fund my spending in retirement? The "spending waterfall" can help.

When it comes to spending from your portfolio, it's important to develop a dynamic withdrawal strategy that reduces the tax drag on your investments. A common rule of thumb is to distribute from taxable accounts (i.e., after-tax dollars), then from tax-deferred accounts (e.g., Traditional 401(k)/IRA), and finally from tax-exempt accounts (Roth 401(k)/IRA, Health Savings Account, etc.).

Unfortunately, most retirement accounts won't allow you to defer your taxes forever. At the very minimum, you will eventually have to distribute the funds from your tax-deferred accounts to satisfy the government's **required minimum distributions (RMDs)**, and these distributions will generally be subject to ordinary income taxes.

If you reach age 72 in 2023 or later, then you have until 1 April of the year following the year you reach age 73 to take your first required minimum distribution, and you must take subsequent RMDs by 31 December of every subsequent year. Prior to the SECURE 2.0 Act, RMDs began at age 72.

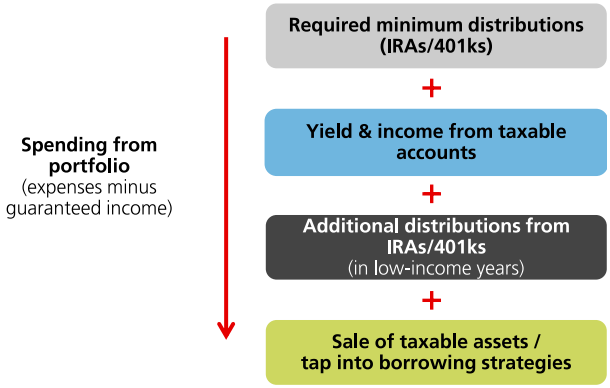
If you reach age 73 in 2033 or later, then you won't be subject to RMDs until age 75. Please see "2025 Retirement guide" for more information on key provisions included in the SECURE 2.0 Act.

Birth year	1951 – 1959	1960 or later
Age when RMD begins	73	75

To the extent that your distributions are needed to fund your spending, you can follow the "spending waterfall" in Fig. 2, which will help you draw cash flow from your retirement assets in the most tax-efficient sequence.

Fig. 2: The "spending waterfall" can help investors manage tax liabilities

Suggested sequence of withdrawals to help improve tax efficiency



Source: UBS

For more information on the tax implications of using certain assets in retirement, including where Health Savings accounts fit into the spending waterfall, please see "Which assets are better to use in retirement?."

Strategies for IRA owners to improve after-tax wealth

The spending waterfall does a good job of deferring taxes for funds that you need for spending, and therefore can be a useful guide for refilling your Liquidity strategy from year to year. However, this rule of thumb focuses only on minimizing taxes in the current year, which may defer too much of your taxable income into later years, resulting in larger RMDs and a higher tax burden in the future.

The spending waterfall also implicitly assumes that you will need to spend your IRA distributions, but in many cases you may want to reinvest them for growth, either for your Longevity strategy (for lifetime spending needs) or for your Legacy strategy (for inheritance and philanthropy).

To enhance the value of the spending waterfall, this report will focus on strategies that will not simply defer income taxes into the future, but will also provide an opportunity to reduce your family's tax burden by spreading your IRA distributions across a greater number of years, moving distributions into years with a lower tax rate, sheltering assets from income and estate taxes, and maximizing the value of your charitable contributions.

Fig. 3: Managing retirement account taxes can help you achieve your goals

The Liquidity. Longevity. Legacy. framework



Source: UBS

Note: UBS Wealth Way is an approach incorporating Liquidity. Longevity. Legacy. strategies that UBS Financial Services Inc. and our Financial Advisors can use to assist clients in exploring and pursuing their wealth management needs and goals over different timeframes. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved. All investments involve the risk of loss, including the risk of loss of the entire investment. Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability.

Strategy #1: Roth conversions

If you aren't yet subject to the IRS's required minimum distributions, you may have an opportunity to take advantage of IRA distributions during years when you have lower-than-normal income, and therefore lower tax rates. For example, you may be able to pay a lower tax rate on your IRA distributions by taking them during your "gap years," the period between your retirement date and the point at which you begin receiving Social Security benefits and taking RMDs.

During your gap years, we recommend accelerating IRA distributions. In some cases, you may want to distribute the funds to your taxable account and either reinvest them or use them to refill your Liquidity strategy. In other cases, we would recommend using this opportunity to make a **Roth conversion** by transferring a portion of your Traditional IRA/401(k) to a Roth IRA/401(k).[1]

The dollar amount of your Roth conversion will count as taxable income so a full Roth conversion in a single tax year would be ill-advised, in our view, because it may generate a lot of taxable income that could be taxed at a higher rate. Instead, we generally recommend implementing *partial*

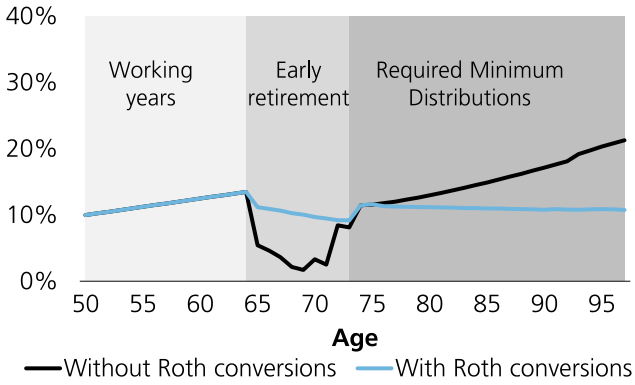
Roth conversions—converting a small amount each year—in order to smooth taxable income out across as many tax years as possible. This approach can help you move taxable income from higher tax brackets to lower tax brackets, and help reduce your lifetime tax burden.

In Fig. 4, we demonstrate how a series of partial Roth conversions during your gap years at the beginning of retirement can help you smooth your effective tax rate (total taxes paid per income received each year) which can help to reduce your lifetime tax burden.

If the bulk of your wealth is saved in taxable and tax-deferred accounts, partial Roth conversions are a great way to add more tax-exempt assets to your balance sheet that will continue growing, won't be subject to lifetime RMDs, and will pass income tax-free to your beneficiaries.[2]

Fig. 4: Partial Roth conversions can help to shift taxable income into years where you will face a lower tax rate

Effective tax rates with and without a series of partial Roth conversions during the early retirement "gap years"



Source: UBS. For illustration purposes.

Additionally, they can help you to enhance your **"tax diversification"** which can help you to reduce the potential impact of changes to tax laws and your personal tax situation. Tax diversification can help in three ways:

1. **Tax-free rebalancing.** Trades in your Traditional and Roth IRAs will not realize capital gains taxes, which can provide you with a way to adjust and rebalance your overall portfolio risk more effectively.
2. **Flexibility to manage your tax bracket.** When you have tax diversification, you are able to defer or accelerate taxable income during retirement, depending on your taxable income from year to year.
3. **A hedge against future tax-rate changes.** Taxes will probably go higher in the future, and if you only save in tax-deferred accounts, this is likely to have an impact on your after-tax wealth. Diversification will help to reduce the impact of higher tax rates by spreading your taxable income over time.

The "**Roth conversion: How much should I convert, and how quickly?**" section in the Appendix can help you to get started on evaluating whether a Roth conversion strategy will make sense for your family's situation.

Boost the after-tax value of wealth transfers

For most non-spouse beneficiaries of IRAs and 401(k)s who inherit the account on or after 1 January 2020, there is a "10-year rule" that can create a significant tax burden for beneficiaries, and thus hamper the amount of after-tax wealth that is transferred (see the Appendix section titled "**What is the 10-year rule?**" for more details).[3]

This 10-year rule means that every tax-deferred dollar left in a Traditional IRA when you pass away represents a future tax burden for your non-charitable beneficiaries.

Completing partial Roth conversions now, especially in low income tax years, can help you to reduce the income tax burden your beneficiaries will face on the IRA distributions after you pass.

Please see the "**Case study: Partial Roth conversion strategy**" section in the Appendix for more details on how this strategy can help you to boost the after-tax value of wealth transfers.

Strategy #2: Life insurance

Roth conversions allow you the potential to pass assets to your beneficiaries free of income taxes, but Roth assets are generally included in your taxable estate.

If your wealth is expected to go higher than the federal lifetime gift and estate tax exemption ($27.98 million per married couple in 2025, but expected to fall in the coming years), or the estate and inheritance taxes set by your state, life insurance may help to manage the impact of these taxes and leave more after-tax wealth to your beneficiaries.

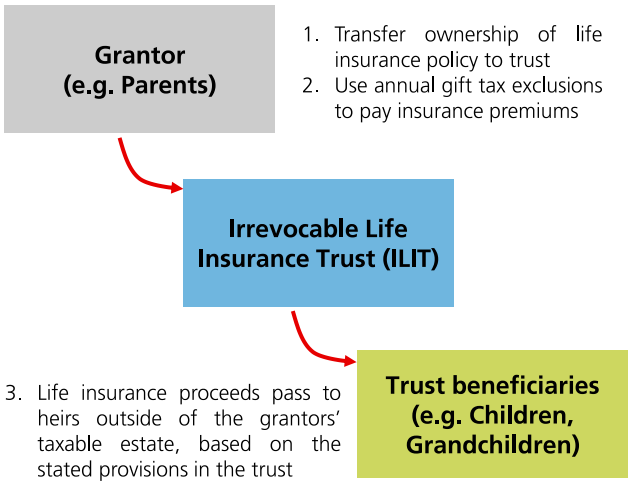
Life insurance death benefits generally pass income tax-free to beneficiaries, and if the life insurance policy is purchased and owned by an irrevocable life insurance trust (ILIT), then the policy's death benefit will not be included in the insured's gross taxable estate at death.

Additionally, life insurance can help you to meet specific bequest objectives with greater certainty around the size of the gift.

Consider directing some of your IRA distributions to paying life insurance policy premiums. This won't avoid the tax cost of your distributions, but it can lower the basis on which future RMDs are calculated, reduce the taxes that your beneficiaries will face on IRA distributions after your passing, and potentially boost the after-tax wealth you are able to give them.

What's more, the ILIT trust structure can allow you to maintain some level of control over how and when the death benefit will be distributed to your beneficiaries after you pass.

Fig. 5: Life insurance can help you pass assets to your beneficiaries without incurring income and estate taxes



Source: UBS. For illustration purposes.

For more information on how to use life insurance as a solution to enhance the after-tax value of your IRA, please see "How to leave more of your IRA assets to your family."

Strategy #3: Qualified charitable distributions

Qualified charitable distributions (QCDs) are a great way to help your charitable donations go further, helping you to fund your philanthropic legacy objectives using distributions from your IRA.

QCDs count toward your RMDs and aren't included in your taxable income that year. This effectively makes those charitable contributions tax-deductible, and the good news is that you don't need to itemize your taxes to take advantage of this tax benefit. Whereas, if you make the donation from taxable assets, donation amounts below the standard deduction can't be deducted from your income that year.

Fig. 6: QCDs can help non-itemizers reduce taxable income

Qualified charitable distributions (QCDs) count as an "above-the-line" deduction

	Cash donation using RMD proceeds (no QCD)	Donate directly from IRA via QCD
IRA distribution (only income)	$100,000	$100,000
QCD	-$0	-$25,000
Total income	$100,000	$75,000
Charitable donation (itemized deduction)	$25,000	0
Deduct greater of itemized deductions or standard deduction	-$33,200 (standard deduction)	-$33,200 (standard deduction)
Taxable income	**$66,800**	**$41,800**

Source: UBS. For illustration purposes. Standard deduction used assumes married filing jointly filing status with both spouses over the age of 65 in 2025.

There are some limitations to QCDs. For example, QCDs cannot be made to Donor Advised Funds or private foundations.[4] In addition, QCDs are only an option if you are at least age 70½, can generally only be done with Traditional IRA assets, and cannot exceed $108,000 in 2025 (indexed for inflation). If you have a sizable IRA, you may not be able to use QCDs to fully eliminate your RMDs' tax costs.

For example, IRA owners who are age 73 in 2025 will have an RMD of $108,000 if their IRA balance was **$2,862,000** on 31 December 2024. If your retirement assets are above that amount, $108,000 of your RMD won't be taxable if taken as a QCD, but any amounts beyond that limit that aren't taken as a QCD will be subject to ordinary income tax.

If you are also planning to make deductible contributions to your IRA during any tax year beginning with the year you turn age 70½, it's important to note that deductible contributions may reduce the portion of QCDs that you're able to exclude from future taxes.

For example, a 71-year-old deducts a $5,000 contribution for 2025, and then plans to make her first QCD of $8,000 during 2026. On her 2026 taxes, only $3,000 of the QCD is excludable:

$8,000 Charitable distribution
– **$5,000** Total post-age 70 ½ deductible contributions
$3,000 Tax-free distribution

If you are charitably minded, and you also want to move more of your investment assets into tax-exempt accounts

for non-charitable objectives, we recommend pairing QCDs and Roth conversions in the same year.

This strategy can be particularly helpful if you have a Traditional IRA with some after-tax dollars because with a QCD the distribution is first considered to be paid from otherwise taxable funds, which will allow you to convert a larger portion of the after-tax dollars to a Roth IRA.

RMDs aren't allowed to be converted to a Roth IRA, so if you are looking to convert Traditional IRA assets to a Roth IRA when you are subject to RMDs, you will need to satisfy that year's RMD first (your RMD dollars have to go to a taxable account, not a Roth IRA).

Distribution strategies for beneficiaries

If you inherit an IRA on or after 1 January 2020 and you are a non-spouse beneficiary, then you are likely subject to the "10-year rule" which has the potential to create a significant income tax burden (see the Appendix section titled "What is the 10-year rule?" for more details). Although the 10-year rule does not allow for much flexibility, there are still strategies that you can use to make the most of the inherited assets.

If you do not need the inherited assets to fund your spending, the details below will help you determine how you may be able to boost your after-tax wealth potential based on your situation. There are generally three potential scenarios for beneficiaries subject to the 10-year rule:

Scenario #1: You inherited a Traditional IRA and the original account owner died *before* their required beginning date (RBD).[5] Although you aren't required to take any distributions from the inherited account until 31 December of the year containing the 10th anniversary of the IRA owner's death, waiting until then to deplete the entire balance will compress the taxable income into one tax year and will likely increase the overall income tax burden. With this in mind, it may make sense to spread the distributions out over time to spread the income across multiple tax years. However, if you're already in the highest marginal tax bracket then delaying the taxable distributions can allow you to extend the tax-deferred growth of these assets.

We suggest working with your financial advisor and tax accountant annually to estimate your income level that year and to distribute enough from the inherited Traditional IRA to fill up your estimated tax bracket.

Scenario #2: You inherited a Traditional IRA and the original account owner died *on or after* their RBD.[5] You're required to take annual distributions in years 1–9 after the IRA owner's death and a full withdrawal by 31 December of the year containing the 10th anniversary of the IRA owner's death. The size of the annual distributions can be determined using the life expectancy factor shown in the IRS's Table I (Single Life Expectancy) next to the beneficiary's attained age as of their birthday in the year after the year of the IRA owner's death, and then reduced by one for subsequent years. This could result in a Year 1 distribution of approximately 1.8% of the account balance if the beneficiary is age 30, or 3.7% at age 60.

Since these required distribution amounts are a small portion of the account balance, sticking with the bare minimum distribution each year may result in a significant distribution amount and a potentially hefty tax bill when you're forced to deplete the balance in the 10th year.

To reduce the overall income tax burden and improve the after-tax wealth potential of these assets, we suggest taking more than your RMD each year to fill up your tax bracket and spread the taxable income over more tax years. However, if you're already in the highest marginal tax bracket, we suggest taking no more than the required minimum distribution to extend the tax-deferred growth potential.

Scenario #3: You inherited a Roth IRA. If you inherited Roth IRA assets, and you're subject to the 10-year rule, you will typically be able to distribute these assets without paying income taxes. We generally recommend leaving the Roth IRA assets invested and growing income tax-free for as long as possible. If you take advantage of the full 10-year window, it's quite possible that your Roth IRA assets will double in value before you are forced to distribute them into a taxable account.

Takeaways and next steps

Generally speaking, the longer your assets can remain in tax-deferred accounts, the greater their after-tax growth potential. However, this doesn't mean that deferring your taxes for as long as possible will be the key to maximizing the after-tax growth of your investment portfolio.

There's a danger in deferring your taxes too long—at some point, too much tax-deferred growth can result in higher RMDs and thus a higher tax cost than if you had paid taxes at an earlier point in time. This is why we recommend that

you find the right balance between deferring taxes into the future and paying them sooner than required.

To recap, here are some strategies that you should discuss with your financial advisor:

1. **Accelerate IRA distributions** to "fill up" your tax bracket in lower-than-normal tax years. This can help you to increase the after-tax distributions from your retirement assets versus an "RMD only" approach.
2. **Use Roth conversions and ILITs** to boost the after-tax wealth you can leave to your heirs. Roth IRA assets can grow income tax-free and irrevocable trusts can pass free of estate taxes.
3. **Make qualified charitable distributions** to meet your philanthropic objectives and maximize the value of your charitable contributions, while simultaneously satisfying all or a portion of your RMD.

If you are unsure of where RMDs fit into your financial plan, your financial advisor can help you to view these decisions through the lens of the UBS Wealth Way, which is a blueprint to create a purpose-built investment strategy that's designed to allocate your resources to help meet your family's unique objectives.

When it comes to determining how these distributions will be taken and where the funds will be used, there are many factors you'll need to consider with your financial advisor. For instance, upcoming cash flow needs, current and future projected tax rates, and the beneficiaries who are currently designated for the account can all affect whether a particular strategy will lead to better outcomes for your particular situation.

Appendix

Roth conversion: How much should I convert, and how quickly?

The most important consideration for your Roth conversion strategy is your tax rate today and how it compares to the tax rate you will face in future years. By reviewing your current and expected income with your financial advisor and tax advisor, you can work together to determine what your taxable income will be today and estimate what your taxable income may be in the future, and then decide whether it makes sense to use partial Roth conversions today to "fill up" an income tax bracket. There are three possible scenarios:

Scenario 1: Your future tax rate will be lower than it is today. It may not be worthwhile to implement a Roth conversion this year because you will have an opportunity to implement a Roth conversion or take a taxable distribution at a lower tax rate in a future tax year.

Scenario 2: Your future tax rate will be the same as it is today. You should talk with your financial advisor and your tax advisor about a partial Roth conversion. A Roth conversion this year may not save you directly on expected taxes, but it could still help you improve your tax diversification and protect your retirement accounts against potential tax increases in the future.

Scenario 3: Your future tax rate will be higher than it is today. A partial Roth conversion this year could help you to reduce the tax cost of your retirement savings, especially if taxes go higher in the future. You should talk with your financial advisor and tax advisor about a partial Roth conversion.

In Fig. 7, we show you the Traditional IRA value (at age 73) that would generate an RMD that would, on its own, force you above a given tax bracket. Hopefully, you will be able to plan your Roth conversion strategy many years before you're subject to RMDs. As a rule of thumb, assume that your IRA will roughly double every 10 years (this is based on a rule of thumb called the "rule of 72").

For example, if you are 63 and your Traditional IRA is worth $3.5 million today, you should assume it will be worth about $7 million at age 73. Even if you have no other income sources in retirement, a $7 million Traditional IRA balance will force you into the 24% tax bracket, so you should consider a Roth conversion strategy that uses your "gap years" (and other low-income years) to fill your tax bracket up to at least the 24% level.

Fig. 7: Which tax bracket should I fill with Roth conversions? Decide based on your Traditional IRA value

IRA threshold values (at age 73) where the RMD alone would push your household into the next tax bracket

Marginal tax rate	Traditional IRA value
10%	1,511,825
12%	3,448,975
22%	6,357,350
24%	11,336,700
32%	14,157,625
35%	20,797,200

Source: UBS

Note: These IRA threshold values were calculated by adding the standard deduction for a married couple over the age of 65 ($33,200) to the largest income amount of each marginal tax bracket in 2025 (married filing jointly), and then multiplying the sum by the distribution period at age 73 (26.5, calculated using the IRS's Uniform Lifetime Table). Assumes no additional income.

This is a very simple starting analysis, and there are many considerations we're not including in this rule of thumb. For example, you may have other income; tax rates might change; you might move to a state with a higher or lower income tax during retirement; and your investments' growth and income might push you into a higher tax bracket.

As we discussed in "What retirees can do during a market downturn," completing Roth conversions when your account value has fallen can create tax-free growth during the recovery, and it can also help to reduce the tax cost of the conversion. The reduction in tax cost can be significant if you have both tax-deferred and after-tax dollars in your Traditional IRA.

There are other consequences than just taxes that you should also take into consideration—for example, a higher taxable income might result in higher Medicare premiums—so it's important to discuss this decision with your financial advisor and your tax advisor.

What is the 10-year rule?

Most non-spouse beneficiaries of IRAs who inherit the account on or after 1 January 2020 must abide by a "10-year rule":[3]

- Such beneficiaries must take annual RMDs in years 1–9 following the original IRA owner's death if the IRA owner died on or after their required beginning date (RBD).[5] If the beneficiary fails to take the RMDs on time, they will be subject to a penalty equal to 25% (reduced to 10% if the RMD is timely corrected within two years or when the IRS identifies) of the amount that should have been withdrawn. These annual distributions in years 1–9 do not apply to Roth IRAs and Roth 401(k)s that are otherwise subject to the 10-year rule, because Roth IRA and Roth 401(k) assets are not subject to lifetime RMDs.
- Regardless of whether the original IRA owner died on or after their RBD, all assets must be withdrawn by 31 December of the year containing the 10th anniversary of the owner's death.[3]

Case study: The partial Roth conversion strategy

Let's look at a couple who is concerned with their tax liability in retirement, and they want to maximize the after-tax value of the wealth they plan to leave their son when they pass away. They are considering a partial Roth conversion strategy to mitigate the taxes paid on their IRA assets.

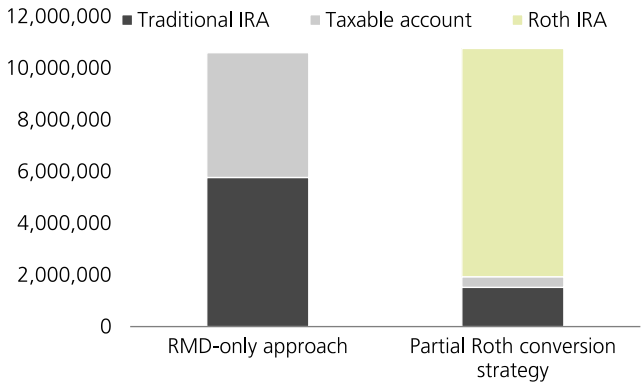
In **Scenario #1 (RMD-only)**, they will withdraw only RMDs and reinvest the distribution amount (net of taxes) not needed to fund spending into the taxable account.

In **Scenario #2 (Roth conversion strategy)**, they will complete partial Roth conversions in years when they have lower-than-normal income to "fill up" the 24% tax bracket in retirement. In addition to investing the Roth assets for growth, we also assume that they reinvest RMDs (net of taxes) that aren't needed to fund spending into their taxable accounts.

The figure below shows the pre-tax value of the couple's assets under the two scenarios, and the makeup of their accounts, when they both have passed away.

Fig. 8: Pre-tax portfolio values at the time of the wealth transfer

Pre-tax value of portfolios when the couple passes away



Source: UBS. For illustration purposes.

The partial Roth conversion strategy resulted in slightly more pre-tax wealth at the end of the plan (approximately $168,000 more), but the advantage from the Roth conversion strategy is more significant when we look at the *after-tax* wealth that the son will inherit, thanks to the income tax-free distributions he will take from the Roth assets.

To assess the value of the wealth that will pass to the son, we need to account for the fact that some beneficiaries must distribute the entire IRA balance within a 10-year window following the original owner's death (in the year they pass away, the IRA still needs to meet the IRA owner's annual RMD).

Since his parents passed away after they had begun taking their RMDs (i.e., after their RBD), he will need to take annual

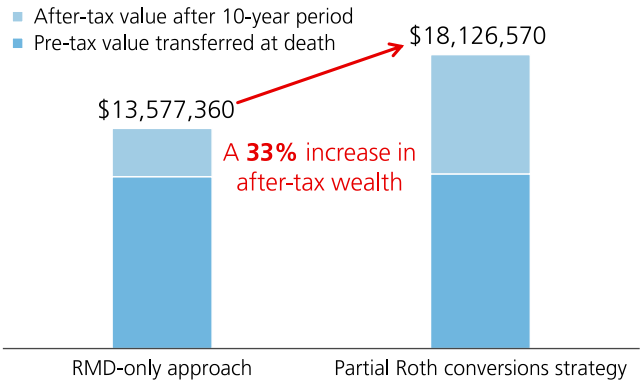
distributions from the Traditional IRA in years 1–9 and then fully deplete the account balance at the end of the 10th year. In the Roth conversion scenario, he keeps the Roth IRA assets invested to maximize tax-free growth potential until he needs to distribute the full amount at the end of the 10-year period.

As a last step for calculating the son's after-tax wealth in each scenario, we assume an after-tax return of 5% p.a. for the taxable account during the 10-year window.

As you can see, after accounting for income taxes and the distributions that are required from IRAs subject to the 10-year rule, the parents' decision to fill up their tax bracket with partial Roth conversions leads to a notable improvement in the after-tax value of the wealth that they are able to leave their son. In fact, at the end of the 10-year period the net increase is approximately **$4.5 million**, a **33%** increase versus the RMD-only approach.

Fig. 9: Roth IRAs have a considerable advantage over Traditional IRAs for non-charitable beneficiaries thanks to their tax-free growth

Taxable assets, Traditional IRA, and Roth IRA transferred at death and the after-tax value of those assets at the end of the 10-year period



Source: UBS. For illustration purposes.

The SECURE 2.0 Act increased the applicable RMD age to 73 if you reach age 73 in 2024. If you reach age 73 in 2033 or later, you don't have to start taking RMDs until age 75. With RMDs beginning at later ages, we anticipate that the RMD-only approach will result in even lower levels of after-tax wealth because delaying distributions may put you into a higher tax bracket in the future, and it may increase the tax rate on your future portfolio growth. This means increases to the RMD age may make the partial Roth conversion strategy even more advantageous.

We recommend working with your financial advisor and your tax advisor on a strategy that maximizes your after-tax wealth potential.

Case study assumptions

- Results were calculated using the UBS Financial Goal Analysis tool
- **Social Security:** Benefits start at age 70 with an annual cost-of-living adjustment of 2.4%
- **Annual retirement spending:** $250,000 in Year 1 of retirement and adjusted annually by 2.4%
- **Inherited IRA distributions:** To spread the taxable distributions over more tax years, the inherited IRA distributions were determined by dividing the account value by the number of years of the 10-year window remaining. In the final year of the analysis we distributed the entire balance to illustrate the full distribution requirement of the SECURE Act of 2019.
- **Taxes:** Taxes withheld include federal income taxes, assuming a filing status of Married Filing Jointly. No state or local income taxes were withheld. No estate taxes were withheld.
- **Investment portfolio assumptions:**
  - During the parents' retirement: The portfolio average return was 6.9% p.a.
  - After wealth transfer: 6% p.a. return for the Traditional IRA and Roth IRA assets and an after-tax return of 5% p.a. for the taxable accounts.

Considerations

- Without any congressional action, the lifetime gift and estate tax exemption amounts will decrease back to about $5 million per individual (adjusted for inflation) in 2026 when the Tax Cuts and Jobs Act provision is scheduled to sunset. It's important to consider federal estate taxes as well as state inheritance and estate taxes when determining the right approach for your family's situation.
- It may not make sense to convert Traditional IRA assets that are earmarked for charity to a Roth IRA, since those accounts may avoid income taxation altogether (excluding any RMDs) via QCDs or a qualified philanthropic bequest.

Endnotes

[1] Not all 401(k) providers allow to implement an in-plan Roth conversion. If they do not, you may need to roll your 401(k) into an IRA in order to implement the Roth conversion. Please refer to the UBS IRA Rollover Guide, available here, for key considerations prior to deciding whether to roll your 401(k) to an IRA.

[2] Each Roth conversion is subject to a five-year holding requirement. If you withdraw recently converted Roth assets before five years have passed, your withdrawal may be subject to penalties. Roth conversions are irrevocable.

[3] There are a few exceptions to the 10-year rule for inherited IRAs. In addition to spouse beneficiaries, the 10-year rule doesn't apply to beneficiaries who at the time of the IRA owner's death are disabled or chronically ill; it does not apply to minor children of the IRA owner (in which case the 10-year rule applies when they reach the age of majority); and it also does not apply to those who are not more than 10 years younger than the account holder (e.g., slightly younger or older siblings).

4 The SECURE 2.0 Act expanded the IRA charitable distributions to allow for a one-time election of up to $54,000 (2025 limit, indexed for inflation) per individual to transfer via a qualified charitable distribution to a charitable gift annuity (CGA), charitable remainder unitrust (CRUT), or a charitable remainder annuity trust (CRAT). There are restrictions on the type of CRUTs and CRATs that can receive a QCD. For instance, they must be funded exclusively by the QCD.

[5] The required beginning date (RBD) is April 1 of the year after the year the IRA owner attains their applicable RMD age (70½ for individuals who attained age 70½ before 2020; 72 for individuals who attained 70½ in 2020 or after; 73 for individuals who attain 72 in 2023 or later; and 75 for individuals who attain 73 in 2033 or later).

Appendix

Risk information

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