

Reverse Rollover



Oftentimes, our P&G clients are unable to perform the annual Backdoor Roth IRA contributions due to having funded traditional IRAs. When performing a Roth conversion, a funded traditional IRA brings in tax liability due to the pro rata nature of the conversion.

Furthermore, in the case where the client has a funded traditional IRA with both pre-tax and post-tax dollars (basis), this opportunity becomes even more attractive. Enter the reverse rollover. The P&G savings plan accepts “roll ins,” that is, moving money from a traditional IRA outside of the plan into the P&G savings plan. Let’s look at an example of how this might work and be beneficial.

Lets say you have a \$200,000 traditional IRA that’s 50% pre-tax contributions (\$100,000) and 50% post tax contributions (\$100,000). If you were to convert this entire traditional IRA to Roth IRA you would owe tax on the entire \$100,000 of pre-tax monies. Instead, prior to the conversion, we send the \$100,000 of pre-tax money as a roll in into the PG savings plan. This leaves the traditional IRA with 100% post-tax contributions, or basis, in the amount of \$100,000. We cannot convert this entire traditional IRA to Roth IRA tax free. Moreover, since there is no longer a funded traditional IRA we can process the annual Backdoor Roth conversions for the client.

So what is the benefit? That \$100,000 of basis will now grow tax free in the Roth IRA. Let’s assume

the \$100,000 doubles every seven years, so in 21 years you have \$800,000. If left in the traditional IRA, the entire \$700,000 of growth would be taxed at ordinary income rates when withdrawn.

Assuming a conservative 22% tax bracket, that’s an additional \$154,000 of tax. As opposed to inside the Roth IRA, there will be no tax upon withdrawal. Add in the annual Roth contributions enabled for the client, and you have quite a bit of tax savings using this reverse rollover method.

Calculating your pro rata percentages and managing the roll in with the savings plan can be complicated. Please consult with your advisor if you have any questions on the process or reach out to me at brad.morgan@marinerwealthadvisors.com, and I would be glad to help.



For more information visit: marinerwealthadvisors.com

This piece is limited to the dissemination of general information pertaining to Mariner Wealth Advisors' investment advisory services. The views expressed are for commentary purposes only and do not take into account any individual personal, financial, or tax considerations. As such, the information contained herein is not intended to be personal legal, investment or tax advice or a solicitation to buy or sell any security or engage in a particular investment strategy. Nothing herein should be relied upon as such, and there is no guarantee that any claims made will come to pass.

Roth IRA Conversions are complex and treatment depends on the type of IRA that is being converted to a Roth IRA. The views expressed regarding Roth Conversions are for commentary purposes only and do not take into account any individual personal, financial, or tax considerations. It is not intended to be a solicitation to buy or sell or engage in a particular investment strategy. Before initiating a Roth IRA Conversion, please consult with a financial or tax professional and ensure you consider all your available options, including applicable taxes, fees and features.

Mariner Wealth Advisors ("MWA") is an SEC registered investment adviser. Registration of an investment adviser does not imply a certain level of skill or training. MWA is in compliance with the current notice filing requirements imposed upon registered investment advisers by those states in which MWA maintains clients. MWA may only transact business in those states in which it is notice filed, or qualifies for an exemption or exclusion from notice filing requirements. Any subsequent, direct communication by MWA with a prospective client shall be conducted by a representative that is either registered or qualifies for an exemption or exclusion from registration in the state where the prospective client resides. For additional information about MWA, including fees and services, please contact MWA or refer to the Investment Adviser Public Disclosure website (www.adviserinfo.sec.gov). Please read the disclosure statement carefully before you invest or send money.

MWA does not provide all services listed in this piece. Some services are provided by affiliates and are subject to additional fees. Additional fees may also apply for tax planning and preparation services.

Certain MWA representatives are licensed insurance agents and are compensated for the sale of insurance-related products through an affiliated insurance agency.

MWA may recommend that clients authorize the active discretionary management of a portion of their assets by and/or among certain manager(s), including mutual funds, private funds or separately managed accounts managed by one or more advisory affiliates, based upon the stated investment objectives of the client. This is a conflict of interest.