

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 If left in the traditional IRA, the entire \$700,000 of growth would be taxed at ordinary income rates when withdrawn.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.



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