

# ROTH CONVERSIONS

## Why the Opportunity Cost Argument is Invalid

Some people believe there is a lost opportunity cost by doing a Roth conversion—that the funds used to pay the conversion tax could have been otherwise invested, and that investment return opportunity is lost.

### False: It's all about the tax rates

There is **NO** opportunity cost in terms of lost investment gains *if the tax rates are the same* both at conversion and later at distribution. Let's look at the math:

NO ROTH CONVERSION	WITH ROTH CONVERSION
\$100,000 Traditional IRA Balance X 2 (Doubles in value over lifetime)	\$100,000 Traditional IRA Balance - <b>\$30,000</b> (30% tax)
----- \$200,000 - <b>\$60,000</b> (30% tax)	----- \$70,000 x 2 (Doubles in value over lifetime)
<b>\$140,000 net</b>	<b>\$140,000 net</b>

Whether taxes are paid now or later, it is the same net return, but *half* the amount of taxes are paid in the Roth conversion... That is if tax rates stay the same historic low rates they are today throughout your lifetime.