



WERNER FINANCIAL
CUSTOMIZED INVESTMENT SOLUTIONS

WHAT IS A BACKDOOR ROTH?

A backdoor Roth is a method for high-income earners to contribute to a Roth Individual Retirement Account (IRA), even if their income exceeds the limits for direct contributions to a Roth IRA. This method involves making a non-deductible contribution to a Traditional IRA and then converting that contribution into a Roth IRA.

Two Step Roth Conversion Process

1. Make a non-deductible contribution to a Traditional IRA
 - As a high-income earner, you won't be eligible to make a direct contribution to a Roth IRA. Instead, you'll need to make a non-deductible contribution to a Traditional IRA. For tax year 2023, you can contribute up to \$6,500 to a Traditional IRA (or \$7,500 if you're age 50 or older)
2. Convert the Traditional IRA to a Roth IRA:
 - Once the funds have settled into your Traditional IRA, you can convert the account to a Roth IRA. You'll need to fill out a conversion form with your IRA custodian or broker to initiate the conversion.

After the Conversion

After you've completed a backdoor Roth conversion, there are several benefits that you can enjoy.

- **Tax-free growth:** One of the main benefits of a Roth IRA is that all growth inside the account is tax-free. This means that you won't owe any taxes on the earnings or gains you make in the account, as long as you follow the rules for the qualified distributions.
- **Tax-free withdrawals:** Another major benefit of a Roth IRA is that qualified withdrawals are tax-free. This means that when you take money out of your Roth IRA in retirement, you won't owe any taxes on the withdrawals. This can be a significant advantage, especially if you expect to be in a higher tax bracket in retirement.
- **No required minimum distributions (RMDs):** Unlike Traditional IRAs, Roth IRAs are not subject to required minimum distributions (RMDs) after age 72. This means that you can leave the money in the account to grow tax-free for as long as you like.
- **Estate planning benefits:** Roth IRAs can be a powerful estate planning tool, as the account can be passed down to your heirs tax-free. Your beneficiaries will be required to take RMDs from the account, but those distributions will be tax-free as well.

Overall, a backdoor Roth conversion can provide a valuable way for high-income earners to take advantage of the tax benefits of a Roth IRA, and can help to provide tax-free income in retirement. However, it's important to weigh the potential benefits against the tax implications and other considerations before proceeding with a backdoor Roth conversion.

It's important to keep the 5-year rule in mind when doing a backdoor Roth conversion, as it can affect your retirement planning and income strategies. If you expect to need to take qualified distributions from your Roth IRA in the near future, you may want to consider alternative strategies or consult with a financial advisor to determine the best course of action.

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