How to Model ROTH Conversions in SIPS

07/10/2026 12:32 pm EDT

In this video we will demonstrate how the Advanced Tax Calculation features in SIPS can help you analyze and model Roth IRA conversion scenarios within a financial plan. Roth IRA conversions can significantly reduce RMDs and income tax liabilities during retirement by front-loading some taxes early.

Video Highlights:

- Initial analysis showing potential benefits of Roth conversions.
- Step-by-step execution of a Roth IRA conversion.
- Comparison of financial outcomes with and without Roth conversions.

Results:

- Accounts Total: Increased by $240,429 with Roth conversion.
- Total Tax: Reduced by $204,014 with Roth conversion.

By the end of this video, you'll see how Advanced Tax Planning can identify the best candidates for Roth conversions and quantify the benefits for clients. For more planning resources and tutorial videos, visit www.sipsplanning.com. For more information about our outsourced financial planning services, visit www.planscout.com. If you feel you need more support or would like to set up demo time with one of our representatives, please contact us at: support@planscout.com.

Related Articles and Sections:Setting up an IRA to Roth IRA conversion in SIPS Advanced,Edit or Add Scenarios, Cash Flow and Tax Advisor

Transcript:

0:04: Hi I'm John Michael Lust VP of operations at PlanScout today I'll be showing you how the Advanced Tax calculation features in simps can help us analyze

0:12: and model some Roth IRA conversion scenarios within afinancial plan ROTH conversions can be a great way for clients with large amounts of tax deferred assets to reduce the RMDS and

0:20: their income tax liabilities by frontloading some of those taxes early during their retirement today we'll look at two types of ROTH conversions a

0:29: normal conversion from an IRA account to a ROTH IRA and an internal ROTH conversion within a hybrid annuity so let's get

0:36: started okay so here we have our sample client uh and let's take a look and see whether this client might be a good candidate for ROTH conversion so we're

0:45: going to check a couple of different things first we want to know do they have a large amount of IRA assets and for this client they have a million and

0:53: a quarter um in their IRA so I would say yes they've got uh quite a large amount of their IRA Savings in their IRA

1:01: we also want to look at you know what their taxes are like especially in these years after retirement but before RMDs begin and we can see that this client's

1:09: paying basically zero taxes for these eight years years three through 10 so that tells us we've got tax bracket capacity that we could use for a ROTH

1:17: conversion and the other thing that we would look at is do they have excess RMDs you know is the amount of their RMD

1:24: that they are having to take greater than what they actually need for their target income because if that's the the case then they're withdrawing from their IRA more than they need and they're

1:33: paying more income taxes on that when they don't even need the income and we can tell that by seeing how you know

1:40: starting in year 14 there's excess savings being put into the non-qualified account so this client really touches

1:48: all three criteria they've got a large IRA they've got lots of years with tax bracket capacity and they've got a large amount of excess

1:56: RMDs so I would say that this is a good candidate for ROTH conversion I'm actually going to leave this scenario here as our before so we can compare

2:03: back to it I'm going to go to a different scenario to begin our conversion work um before we start converting it's important to know what

2:11: our budget is for what we can convert each year uh a common way that we can decide that is by looking at the taxes

2:20: they paid during their working years and what tax bracket they were in while they were still working and try to stay within that tax bracket as much as

2:27: possible so uh we can see that very easily by going to our income tax page we're going to create a tax scenario for

2:35: year one and we can see that this client is in the 22% tax bracket they're paying about $20,000 a year in taxes so that

2:44: gives us essentially a tax budget that we can stick to while we do our conversions so we're going to try to

2:50: stay within that 22% tax bracket so the first thing that we need

2:57: to do from here is add an account uh so we're going to create our ROTH IRA we're going to leave the account balance as uh blank because we don't

3:06: have anything in here yet we can set our hypothetical return I want to make sure my tax calculation option is set to do not tax ROTH because we don't want any

3:15: withdrawals out of this account to be created uh treated as taxable events then I'm going to set the account type to

3:21: ROTH and we should be good to go um now

3:29: we can do some trial and error here we can go between the IRA and the ROTH and experiment with you know how much we can you know withdraw from the IRA and save

3:37: to the ROTH but if you have a SIPS advanced subscription then you already have Dynamic mode here and this will also let us

3:44: iterate and find uh what our sweet spot is going to be so I'm going to start with $50,000 showing us a withdrawal out of

3:52: the IRA and then a savings into the ROTH we can calculate we can see okay

4:00: that gets us part of the way there we're using about half our taxtax uh bracket room uh so we can convert more if we

4:08: want uh you know we could say let's do a lot more and convert $150,000 you know again we can easily

4:16: see that okay that's going to be probably too much you know now we've pushed ourselves into another tax bracket but I bet our sweet spot is going to be in the middle let's try

4:23: $100,000 a year for years three four and five

4:31:mand there we go we're right on the money here uh in terms of our tax targets so I'm going to cancel out of dynamic

4:39: mode I'm going to go to my IRA and I'm going to create an annual fixed withdrawal of $100,000 in years three

4:46: four and five click pick years save and the ROTH IRA I'm going to do the same I'm going to do uh annual

4:55: fix savings I'm going to do that in years three four and five pick

5:01: and now we've replicated what we uh just tried with Dynamic mode um we can

5:09: verify that we've stayed within the right tax bracket by going back to our income tax page we can create a tax scenario for year

5:16: three uh we'll see that that $100,000 is going to show up on the IRA distributions row if you like to show these tax

5:24: scenarios to your clients or you work with the CPA and you want to clarify that hey this wasn't really an income distribution this was a ROTH conversion you can move that $100,000 down to the

5:32: ROTH conversion row it's going to be treated the same in terms of the tax calculation but uh just maybe it's a little bit

5:40: cleaner and now we can see we've stayed within the 22% tax bracket our effective tax rate again is also very similar to

5:47: what we had before at just over 14% so I think this part is good to go and let's go back to our

5:55: plan and see where we stand so we still have about 5 years years of tax bracket room that we can use again Social

6:03: Security starts within these years so I only did this $100,000 conversion for years one through or three through four

6:11: and five because I thought that starting in year six once we begin Social Security the amount that we can convert

6:18: each year is probably going to change and we can also see we've got you know a few more years here of excess RMDs so we can probably convert a little bit more

6:25: to get rid of those so let's look at our before scenario we can see that we uh ended this scenario after 32 years with 3 million,

6:38: 92,7 184 we are paying $

6:42: 73,74 in total income taxes after we do the ROTH conversion we've

6:49: converted um a quite large amount um $550,000 in the ROTH and then about

6:56: $186,000 within the hybrid that increases our savings to

7:02: 3,333,213 it's about a $240,000 increase and we've reduced our taxes to $

7:10: 9,727 th000 so that's about a $200,000 in decrease compared to not doing the conversion we also see that we've solved

7:19: the issue of our excess RMDs now our RMDs for this client now are are much more

7:27: manageable uh they are within the Target income range uh that we have for the plan we've balanced those out with a

7:34: nice chunk of uh ROTH IRA money each year and then using some of our non-qualified to make up the gaps so uh

7:43: quite a successful result I think for this client uh to do this uh proposed ROTH IRA

7:50: conversion and we're done with Advanced Tax planning we were able to identify that this client was a good candidate for a ROTH conversion we found what

7:58: years we wanted to convert within and easily kept track of our income taxes throughout the plan we can also quantify the value of this ROTH conversion for

8:06: the client in terms of additional savings and reduced taxes for more planning resources and tutorial videos please visit www.sipsplanning.com For more information about out outsources financial planning services please visit www.planscout.com Thank you very much and have a great day