



Distribution strategies for IRA owners and beneficiaries

18 August 2026, 08:37 UTC, written by Ainsley Carbone, Retirement Strategist, UBS GWM CIO Global Investment Management, Justin Waring, Head UBS Wealth Way Strategy & Solutions, UBS GWM CIO Global Investment Management

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Key points

- As implied by the name, **required minimum distributions (RMDs)** are withdrawals that individuals must take from their retirement accounts beginning at a certain age.
- Like other retirement account withdrawals, RMDs are typically taxed as ordinary income, regardless of whether the funds are spent or reinvested. RMDs may be especially problematic for individuals with larger retirement account balances, as larger IRAs generally lead to larger distributions, which may increase taxable income and potentially push households into higher tax brackets. This, in turn, may dampen the after-tax growth potential of retirement account assets.
- This report describes three IRA distribution strategies to help improve the after-tax growth potential of retirement account assets. Taken together, these strategies may help reduce the tax cost associated with funding retirement, may help retirees manage the risk of drawing down retirement savings during their lifetime, and may help support a greater financial impact on the people and causes that are important to them.

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This report focuses on opportunities to help reduce the potential “tax drag” on retirement assets in order to harness the full potential power of compounding growth. Retirement assets may contribute to this objective in two main ways:

#1 Defer taxes. Deductible contributions to a Traditional IRA or 401(k) reduce taxable income in the year the contribution is made. These pretax dollars generally grow on a tax-deferred basis until withdrawn in retirement, at which point both contributions and the investment growth they created are typically taxed as ordinary income. As a result, deductible contributions may help reduce current taxable income, while potentially increasing taxable income in future years.

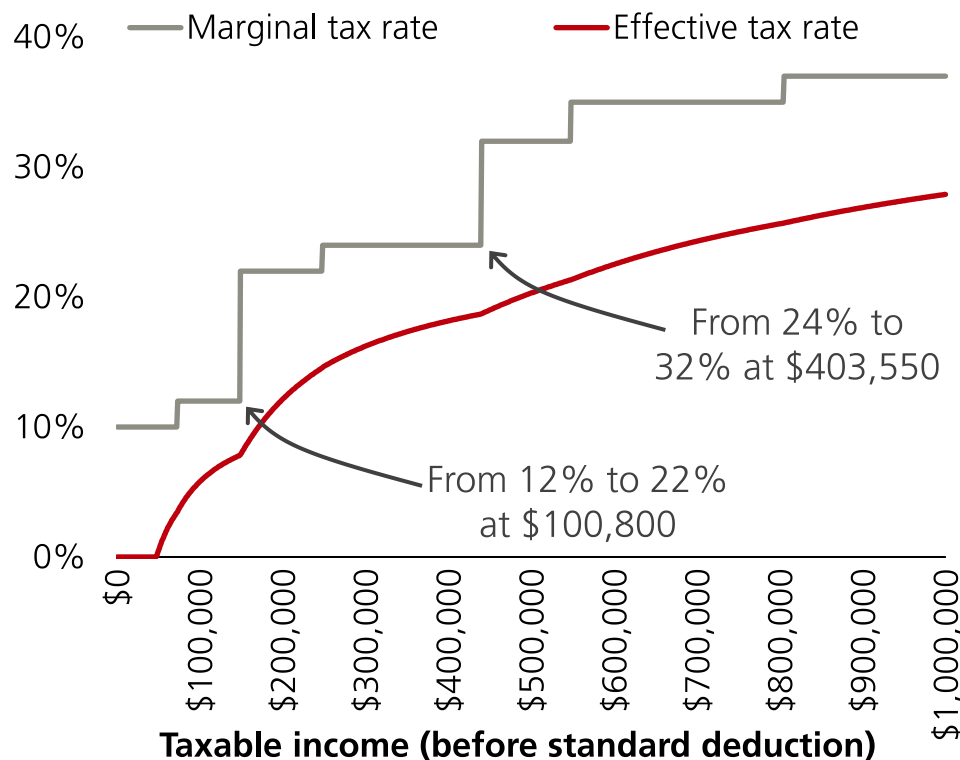
#2 Reduce your tax rate. Deferring taxes does not, on its own, enhance an investor’s after-tax wealth potential. Deductible contributions typically only provide tax savings over the long run if the investor’s current tax rate is higher than it will be in the future when they take a distribution or implement a Roth conversion.

The federal income taxes are calculated using a progressive marginal income tax system, applying a higher tax rate for more taxable income in a given tax year. As a result, when it comes to managing contributions to and distributions from retirement accounts, one tax management concept involves spreading taxable income over as many years as possible.

There are several breakpoints in the marginal income tax rates (Fig. 1). These breakpoints may be used to a family’s advantage by timing deductible contributions to stay out of higher tax brackets and timing taxable distributions or conversions to “fill up” lower tax brackets in years of relatively lower taxable income.

Fig. 1: Moving distributions to low-income years can help reduce overall tax costs

Marginal and effective tax rates (2026), married filing jointly



Source: IRS, UBS. Does not include FICA taxes or any state taxes.

As an illustration of how spreading taxable income across multiple years may help reduce a family’s overall tax burden, consider the following example in which a married couple has gross income of \$200,000:

- If this taxable income is concentrated in a single tax year, the last dollar would fall within the 22% tax bracket (assuming married filing jointly), after taking the standard deduction (\$32,200). The resulting federal tax would be approximately \$26,340, representing an effective tax rate of 13.2%.
- If the same income is instead realized evenly over two tax years (e.g., \$100,000 per year), taxable income would remain within the 12% tax bracket each year. The resulting federal tax would be approximately \$7,640 per year (\$15,280).

combined), representing an effective tax rate of 7.6%. This scenario would result in approximately \$11,060 in reduced federal tax liability.

In addition to managing the federal tax brackets, families may want to also consider the impact that state taxes may have on their retirement savings. For those planning to retire in a state with a lower income tax than the state in which they currently reside, deductible contributions may have increased potential value.

On the other hand, future taxes may rise, especially on families with higher levels of taxable income. As a result, deferring too much income into retirement years may not always be beneficial. Maintaining tax diversification—spreading retirement assets across tax-deferred, tax-exempt, and taxable accounts—may provide retirees with greater flexibility to manage taxable income in retirement while still supporting desired spending levels. For additional information on allocating savings across different tax treatments, see the CIO Global Investment Management team's report, [Where should I put my savings?: 2026 savings waterfall worksheet](#) (published 11 December 2025).

How can I fund my spending in retirement? The “spending waterfall” can help.

When withdrawing from a portfolio in retirement, it's important to develop a dynamic withdrawal strategy that reduces the tax drag on the investments. A common rule of thumb is to distribute from taxable accounts (i.e., after-tax dollars), then from tax-deferred accounts (e.g., Traditional 401(k)/IRA), and finally from tax-exempt accounts (Roth 401(k)/IRA, Health Savings Account, etc.).

Unfortunately, most retirement accounts won't allow taxes to be deferred forever. At the very minimum, funds will eventually need to be distributed from tax-deferred accounts to satisfy the government's **required minimum distributions (RMDs)**, and these distributions will generally be subject to ordinary income taxes.

Individuals who attain age 73 in the current year are required to begin taking lifetime RMDs. Prior to the SECURE 2.0 Act, RMDs began at age 72. For those reaching age 73 in 2033 or later, lifetime RMDs aren't required until age 75.

Individuals who turn age 73 in 2026 generally have until 1 April 2027 to satisfy their first RMD (2026's RMD) and until 31 December 2027 to take their second RMD. Keep in mind that taking both RMDs in the same year may increase taxable income, which could result in a higher tax bracket and greater tax liability.

For more information on key provisions included in the SECURE 2.0 Act, see the CIO Global Investment Management team's report, [“2026 Retirement guide”](#) (published 14 January 2026).

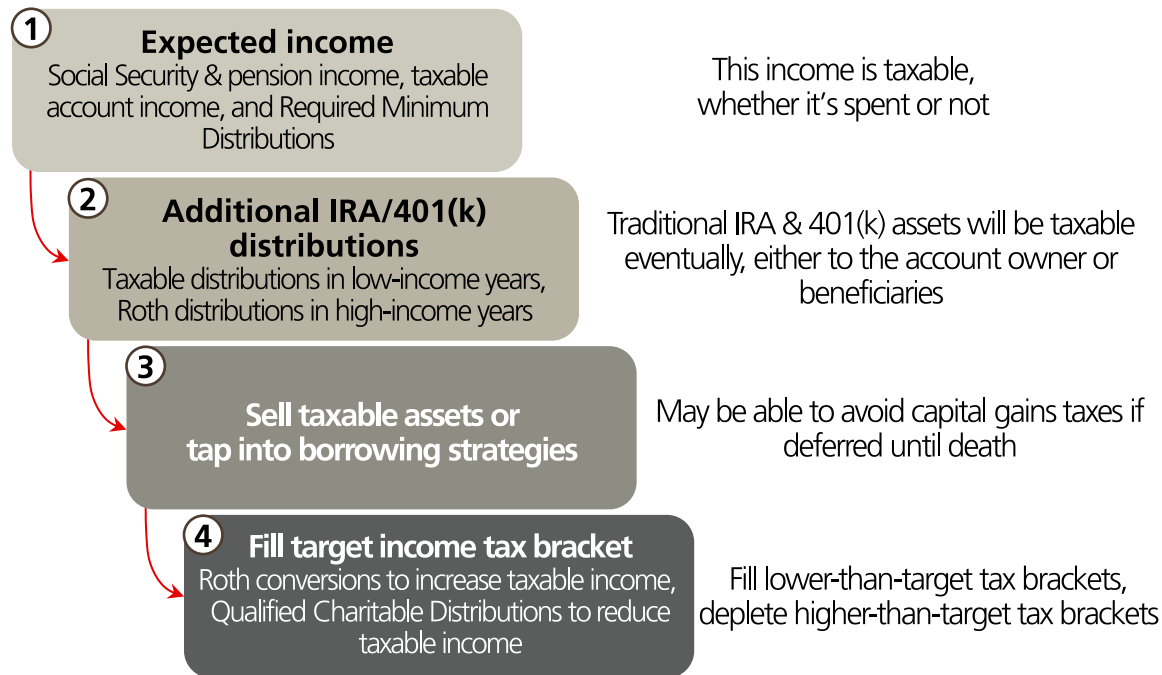
Birth year	1951 – 1959	1960 or later
Age when RMD begins	73	75

To the extent that distributions are needed to fund a family's spending, they may consider following the “spending waterfall” in Fig. 2, which will help them draw cash flow from their retirement assets in the most tax-efficient sequence.

For more information on the tax implications of using certain assets in retirement, including where Health Savings accounts fit into the spending waterfall, see the CIO Research report [“Which assets are better to use in retirement?”](#) (published 5 February 2024).

Fig. 2: A "spending waterfall" approach can help manage retirement spending taxes

Potential sequence of withdrawals to help improve tax efficiency



Source: UBS

Strategies for IRA owners to improve after-tax wealth

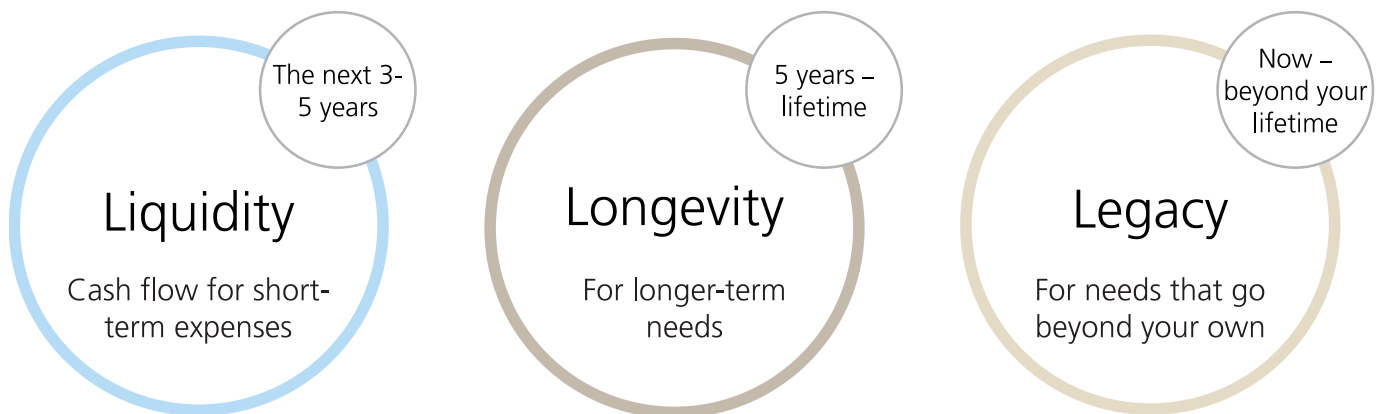
The spending waterfall illustrates a way to defer taxes for funds that are needed for spending, and therefore can be a useful guide for refilling the Liquidity strategy from year to year. However, this rule of thumb focuses only on minimizing taxes in the current year, which may defer too much taxable income into later years, resulting in larger RMDs and a higher tax burden in the future.

The spending waterfall also implicitly assumes that IRA distributions are needed for spending, but in many cases families may want to reinvest them for growth, either for their Longevity strategy (for lifetime spending needs) or for their Legacy strategy (for inheritance and philanthropy).

To enhance the value of the spending waterfall, this report will focus on strategies that may not simply defer income taxes into the future, but may also provide an opportunity to reduce a family's tax burden by spreading their IRA distributions across a greater number of years, moving distributions into years with a lower tax rate, sheltering assets from income and estate taxes, and maximizing the value of charitable contributions.

Fig. 3: Managing retirement account taxes may help families achieve their goals

The Liquidity. Longevity. Legacy. framework



What are some potential benefits of managing retirement account taxes?

Lower the tax cost
of funding
retirement spending

Reduce the risk of
outliving retirement
savings

Make a bigger impact on
the people and causes
that matter most

Source: UBS

Note: UBS Wealth Way is an approach incorporating Liquidity. Longevity. Legacy. strategies that UBS Financial Services Inc. and our Financial Advisors can use to assist clients in exploring and pursuing their wealth management needs and goals over different timeframes. This approach is not a promise or guarantee that wealth, or any financial results, can or will be achieved. All investments involve the risk of loss, including the risk of loss of the entire investment. Timeframes may vary. Strategies are subject to individual client goals, objectives and suitability.

Strategy #1: Roth conversions

Those who aren't yet subject to the IRS's required minimum distributions may have an opportunity to take advantage of IRA distributions during years when they have lower-than-normal income, and therefore lower tax rates. For example, an investor may be able to pay a lower tax rate on their IRA distributions by taking them during their "gap years," the period between their retirement date and the point at which they begin receiving Social Security benefits and taking RMDs.

Accelerating IRA distributions during these gap years may help families take advantage of potentially lower tax rates. In some cases, they may want to distribute the funds to their taxable accounts and either reinvest them or use them to refill their Liquidity strategy. In other cases, they may consider using this opportunity to make **Roth conversions** by transferring a portion of their Traditional IRA/401(k) to a Roth IRA/401(k).¹

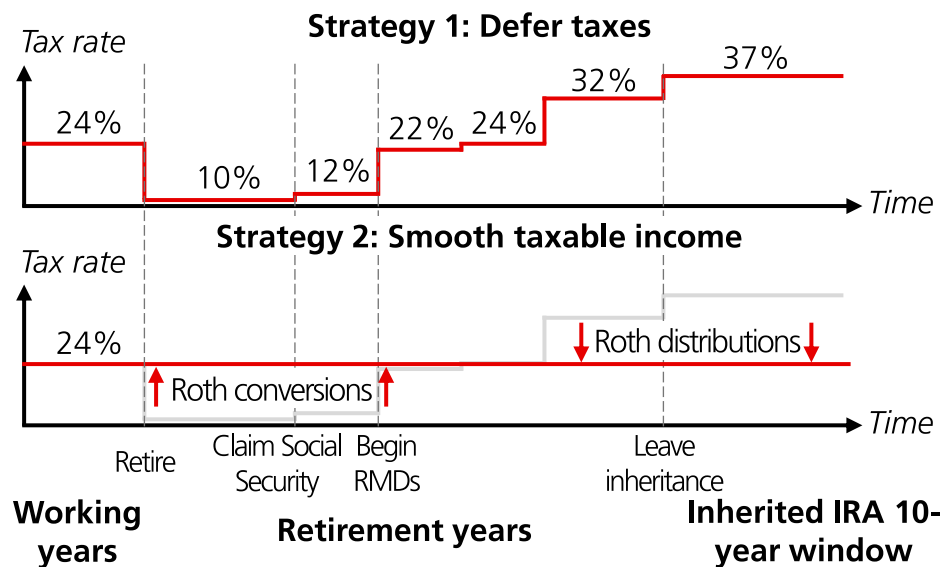
The dollar amount of the Roth conversion will count as taxable income, so a full Roth conversion in a single tax year is generally ill-advised because it may generate considerable taxable income that could be taxed at a higher rate. Instead, implementing *partial* Roth conversions—converting a small amount each year—may help families smooth their taxable income out across as many tax years as possible. This approach may help move taxable income from higher tax brackets to lower tax brackets, and help reduce a family's lifetime tax burden.

The figure below demonstrates how a series of partial Roth conversions during a hypothetical investor's gap years at the beginning of retirement may help them smooth their tax rate which can help to reduce their lifetime tax burden.

For those who have the bulk of their wealth saved in taxable and tax-deferred accounts, partial Roth conversions may be a great way to add more tax-exempt assets to their balance sheet that will continue growing, won't be subject to lifetime RMDs, and will pass income tax-free to the account's designated beneficiaries.²

Fig. 4: Partial Roth conversions can help to shift taxable income into years where families may face a lower tax rate

Marginal income tax brackets during the account owner's working years, the account owner's retirement years, and the beneficiary's 10-year distribution window for two withdrawal strategies



Source: IRS, UBS. Hypothetical example, for illustration purposes only.

Additionally, they can help families to enhance their **"tax diversification,"** which can help to reduce the potential impact of changes to tax laws and their personal tax situation. Tax diversification can help in three ways:

1. **Tax-free rebalancing.** Trades in Traditional and Roth IRAs will not realize capital gains taxes, which can provide families with a way to adjust and rebalance their overall portfolio risk more effectively.
2. **Flexibility to manage tax brackets.** When a family has tax diversification, they may be able to defer or accelerate taxable income during retirement, depending on their taxable income from year to year.
3. **A hedge against future tax-rate changes.** Taxes will probably go higher in the future, and if savings are added only to tax-deferred accounts, this is likely to have an impact on after-tax wealth. Diversification will help to reduce the impact of higher tax rates by spreading taxable income over time.

The **"Roth conversion: How much should I convert, and how quickly?"** section in the Appendix can help families get started on evaluating whether a Roth conversion strategy will make sense for their situation.

Boost the after-tax value of wealth transfers

For most non-spouse beneficiaries of IRAs and 401(k)s who inherit the account on or after 1 January 2020, there is a "10-year rule" that can create a significant tax burden for beneficiaries, and thus hamper the amount of after-tax wealth that is transferred (see the Appendix section titled **"What is the 10-year rule?"** for more details).³

This 10-year rule means that every tax-deferred dollar left in a Traditional IRA when the account owner passes away represents a future tax burden for the account's non-charitable beneficiaries.

Completing partial Roth conversions now, especially in low income tax years, may help investors reduce the income tax burden their beneficiaries will face on IRA distributions after the account owner passes away.

See the **"Case study: Partial Roth conversion strategy"** section in the Appendix for more details on how this strategy may help to boost the after-tax value of wealth transfers.

Strategy #2: Life insurance

Roth conversions allow you the potential to pass assets to your beneficiaries free of income taxes, but Roth assets are generally included in your taxable estate.

If a family's wealth is expected to go higher than the federal lifetime gift and estate tax exemption (\$30 million per married couple in 2026), or the estate and inheritance taxes set by their state, life insurance may help to manage the impact of these taxes and leave more after-tax wealth to their beneficiaries.

Life insurance death benefits generally pass income tax-free to beneficiaries, and if the life insurance policy is purchased and owned by an irrevocable life insurance trust (ILIT), then the policy's death benefit will not be included in the insured's gross taxable estate at death.

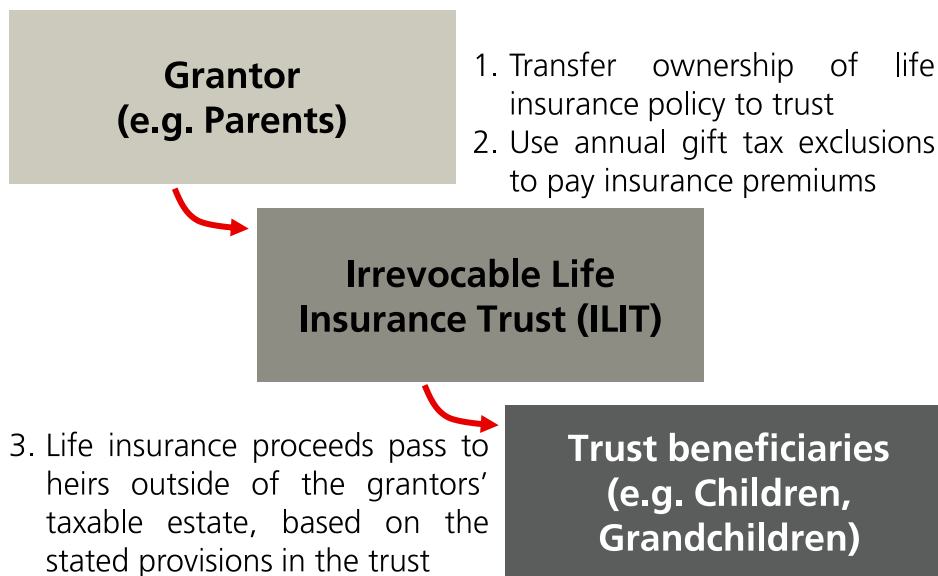
Additionally, life insurance can help families meet specific bequest objectives with greater certainty around the size of the gift.

For these reasons, families may want to consider directing some of their IRA distributions to paying life insurance policy premiums. This won't avoid the tax cost of IRA distributions, but it may lower the basis on which future RMDs are calculated, reduce the taxes that beneficiaries will face on distributions from Inherited IRAs, and potentially boost the after-tax value of wealth transfers.

What's more, the ILIT trust structure can allow families to maintain some level of control over how and when the death benefit will be distributed to the beneficiaries.

Fig. 5: Life insurance may help families pass assets to their beneficiaries without incurring income and estate taxes

Basic illustration of how an ILIT works



Source: UBS. For illustration purposes.

For more information on how to use life insurance as a solution to enhance the after-tax value of an IRA, see the CIO Research report "[How to leave more of your IRA assets to your family](#)" (published 8 July 2024).

Strategy #3: Qualified charitable distributions

Qualified charitable distributions (QCDs) are a great way to help a family's charitable donations go further, helping them to fund their philanthropic legacy objectives using distributions from their Traditional IRAs.

QCDs allow Traditional IRA owners to transfer funds from their IRA directly to a qualified charity—up to \$111,000 for the 2026 tax year (married couples may each utilize this limit from their respective IRAs)—and have the distribution count toward their annual required minimum distribution (RMD), but not be included in the IRA owner's federal taxable income.

This effectively makes those charitable contributions fully tax-deductible, and the good news is that families don't need to itemize their taxes to take advantage of this tax benefit. Whereas, if taxable assets are used for the donation, donation amounts below the standard deduction can't be deducted from taxpayer's income that year.

Fig. 6: QCDs can help non-itemizers reduce taxable income

Qualified charitable distributions (QCDs) count as an "above-the-line" deduction

	Cash donation using RMD proceeds (no QCD)	Donate directly from IRA via QCD
IRA distribution (only income)	\$100,000	\$100,000
QCD	-\$0	-\$25,000
Total income	\$100,000	\$75,000
Charitable donation (itemized deduction)	\$25,000	0
Deduct greater of itemized deductions or standard deduction	-\$35,500 (standard deduction)	-\$35,500 (standard deduction)
Taxable income	\$64,500	\$39,500

Source: UBS. For illustration purposes. Standard deduction used assumes married filing jointly filing status with both spouses over the age of 65 in 2026. This calculation does not account for the new age 65 plus "bonus" deduction.

There are some limitations to QCDs. For example, QCDs must go directly from a Traditional IRA to a qualified charity, and must be completed by year-end to qualify for the current tax year. Additionally, it's important to note that QCDs cannot be directed to donor advised funds or private foundations.⁴ What's more, QCDs are only an option for those who are at least age 70½, can generally only be done with Traditional IRA assets, and cannot exceed \$111,000 in 2026 (indexed for inflation).

Those with sizable IRA assets may not be able to use QCDs to fully eliminate their RMDs' tax costs. For example, IRA owners who are age 73 in 2026 will have an RMD of \$111,000 if their IRA balance was **\$2,941,500** on 31 December 2025. If retirement assets are above that amount, \$111,000 of the retiree's RMD won't be taxable if taken as a QCD, but any amounts beyond that limit which can't be taken as a QCD would be subject to ordinary income tax.

For those who are also planning to make deductible contributions to their IRAs during any tax year beginning with the year they turn age 70½, it's important to note that deductible contributions may reduce the portion of QCDs that are able to be excluded from future taxes.

For example, a 71-year-old deducts a \$5,000 contribution for 2026, and then plans to make her first QCD of \$8,000 during 2027. On her 2026 taxes, only \$3,000 of the QCD is excludable:

\$8,000 Charitable distribution
 – **\$5,000** Total post-age 70 ½ deductible contributions
\$3,000 Tax-free distribution

Those who are charitably minded and also want to move more of their investment assets into tax-exempt accounts for non-charitable objectives may want to consider pairing QCDs and Roth conversions in the same year.

This strategy can be particularly helpful if the investor has a Traditional IRA with some after-tax dollars because with a QCD the distribution is first considered to be paid from otherwise taxable funds, which will allow the investor to convert a larger portion of the after-tax dollars to a Roth IRA.

RMDs aren't allowed to be converted to a Roth IRA, so those who are looking to convert Traditional IRA assets to a Roth IRA when they are subject to RMDs, they will need to satisfy that year's RMD first (the RMD dollars have to go to a taxable account, not a Roth IRA).

Distribution strategies for beneficiaries

Those who inherit an IRA on or after 1 January 2020 and are a non-spouse beneficiary will likely be subject to the "10-year rule" which has the potential to create a significant income tax burden (see the Appendix section titled "What is the 10-year rule?" for more details). Although the 10-year rule does not allow for much flexibility, there are still strategies that can be used to make the most of the inherited assets.

If the inherited assets are not needed to fund current spending, the details below will help determine how one may be able to boost their after-tax wealth potential based on their situation. There are generally three potential scenarios for beneficiaries subject to the 10-year rule:

Scenario #1: An individual inherits a Traditional IRA and the original account owner died before their required beginning date (RBD).⁵ Although the individual is not required to take any distributions from the inherited account until 31 December of the year containing the 10th anniversary of the IRA owner's death, waiting until then to deplete the entire balance will compress the taxable income into one tax year and will likely increase the overall income tax burden. With this in mind, it may make sense to spread the distributions out over time to spread the income across multiple tax years. However, for those who are already in the highest marginal tax bracket, delaying the taxable distributions may allow for extended tax-deferred growth potential.

Beneficiaries may want to consider working with their financial advisor and tax accountant annually to estimate their income level that year and to distribute enough from the inherited Traditional IRA to fill up their estimated tax bracket.

Scenario #2: An individual inherits a Traditional IRA and the original account owner died on or after their RBD.⁵ The individual will be required to take annual distributions in years one to nine after the IRA owner's death and a full withdrawal by 31 December of the year containing the 10th anniversary of the IRA owner's death. The size of the annual distributions is determined using the life expectancy factor shown in the IRS's Table I (Single Life Expectancy) next to the beneficiary's attained age as of their birthday in the year after the year of the IRA owner's death, and then reduced by one for subsequent years. This could result in a Year 1 distribution of approximately 1.8% of the account balance if the beneficiary is age 30, or 3.7% at age 60.

Since these required distribution amounts are a small portion of the account balance, sticking with the bare minimum distribution each year may result in a significant distribution amount and a potentially hefty tax bill when the balance must be fully depleted in the 10th year.

To reduce the overall income tax burden and improve the after-tax wealth potential of these assets, individuals may want to consider taking more than the RMD each year to fill up their estimated tax bracket and spread the taxable income over more tax years. However, if they're already in the highest marginal tax bracket, taking no more than the required minimum distribution will allow for extended tax-deferred growth potential.

Scenario #3: An individual inherits a Roth IRA. Individuals who inherit Roth IRA assets and are subject to the 10-year rule will typically be able to distribute these assets without paying income taxes. Individuals may want to consider leaving the assets in the Roth IRA to allow them to grow income tax-free for as long as possible. As illustrated in the CIO Research report "[Doubling time and the Rule of 72](#)" (published 16 July 2019), depending on the portfolio's growth, those who take advantage of the full 10-year window may find that it's quite possible that their Roth IRA assets will double in value before they are forced to distribute them into a taxable account.

Takeaways and next steps

Generally speaking, the longer retirement assets can remain in tax-deferred accounts, the greater their after-tax growth potential. However, this doesn't mean that deferring taxes for as long as possible will be the key to maximizing after-tax growth of an investment portfolio.

There's a danger in deferring taxes too long—at some point, too much tax-deferred growth can result in higher RMDs and thus a higher tax cost than if taxes were paid at an earlier point in time. It's important that families aim to find the right balance between deferring taxes into the future and paying them sooner than required.

To recap, here are some strategies that families may want to discuss with their financial advisor:

1. **Accelerating IRA distributions** to “fill up” tax brackets in lower-than-normal tax years may help families increase the value of after-tax distributions from their retirement assets versus an “RMD only” approach.
2. **Combining Roth conversions and ILIT strategies** may help families boost the after-tax wealth they leave to their beneficiaries. Roth IRA assets can grow income tax-free and irrevocable trusts can pass free of estate taxes.
3. **Using qualified charitable distributions** may help families meet their philanthropic objectives and maximize the value of their charitable contributions, while simultaneously satisfying all or a portion of their lifetime RMDs.

Those who are unsure of where RMDs fit into their financial plan may benefit from working with a financial advisor who can help families to view these decisions through the lens of the UBS Wealth Way framework, which is a blueprint to create a purpose-built investment strategy that's designed to allocate resources to help meet the family's unique objectives.

When it comes to determining how these distributions will be taken and where the funds will be used, there are many factors that families may need to consider with their financial advisor. For instance, upcoming cash flow needs, current and future projected tax rates, and the beneficiaries who are currently designated for the account can all affect whether a particular strategy will lead to better outcomes for particular situations.

Appendix

Roth conversion: How much should I convert, and how quickly?

The most important consideration for a Roth conversion strategy is a family's tax rate today and how it compares to the tax rate they will face in future years. By reviewing their current and expected income with their financial advisor and tax advisor, they can work together to determine what their taxable income will be today and estimate what their taxable income may be in the future, and then decide whether it makes sense to use partial Roth conversions today to “fill up” an income tax bracket. There are three possible scenarios:

Scenario 1: The estimated future tax rate may be lower than it is today. It may not be worthwhile to implement a Roth conversion this year because the family may have an opportunity to implement a Roth conversion or take a taxable distribution at a lower tax rate in a future tax year.

Scenario 2: The estimated future tax rate may be the same as it is today. Families may want to consider talking with their financial advisor and tax advisor about a partial Roth conversion. A Roth conversion this year may not save a family directly on expected taxes, but it could still help to improve their tax diversification and protect their retirement accounts against potential tax increases in the future.

Scenario 3: The estimated future tax rate may be higher than it is today. A partial Roth conversion this year could help the family to reduce the tax cost of their retirement savings, especially if taxes go higher in the future. Families may want to consider talking with their financial advisor and tax advisor about a partial Roth conversion.

Fig. 7 shows the Traditional IRA values (at age 73) that would generate an RMD that would, on its own, force a family above a given tax bracket. Hopefully, families will be able to plan their Roth conversion strategies many years before they are subject to RMDs. As a rule of thumb, families may want to assume that their IRA will roughly double every 10 years (this is based on a rule of thumb called [the “rule of 72”](#)).

For example, if an individual is 63 and their Traditional IRA is worth \$3.5 million today, they may want to assume it will be worth about \$7 million at age 73. Even if they have no other income sources in retirement, a \$7 million Traditional IRA balance may force them into the 24% tax bracket, so they may want to consider a Roth conversion strategy that uses their “gap years” (and other low-income years) to fill their tax bracket up to at least the 24% level.

Fig. 7: Which tax bracket should I fill with Roth conversions? Decide based on the Traditional IRA's value
IRA threshold values (at age 73) where the RMD alone would push the household into the next tax bracket

Marginal tax rate	Traditional IRA value
10%	1,597,950
12%	3,611,950
22%	6,542,850
24%	11,634,825
32%	14,520,675
35%	21,311,300

Source: UBS

Note: These IRA threshold values were calculated by adding the standard deduction for a married couple over the age of 65 (\$35,500) to the largest income amount of each marginal tax bracket in 2026 (married filing jointly), and then multiplying the sum by the distribution period at age 73 (26.5, calculated using the IRS's Uniform Lifetime Table). Assumes no additional income. The age 65 plus "bonus" deduction is not included in the calculation. For more information on the bonus deduction, see the CIO Global Investment Management team's report, "[What's new with personal taxes in 2026?](#)" (published 4 February 2026).

This is a very simple starting analysis, and there are many considerations not included in this rule of thumb. For example, a family may have other income; tax rates might change; a family might move to a state with a higher or lower income tax during retirement; and the investments' growth and income might push a family into a higher tax bracket.

As discussed in the CIO Research report, "[What retirees can do during a market downturn](#)" (published 27 May 2022), completing Roth conversions when the account value has fallen may help to create tax-free growth during the recovery, and it can also help to reduce the tax cost of the conversion. The reduction in tax cost can be significant if the individual has both tax-deferred and after-tax dollars in their Traditional IRAs.

There are other consequences than just taxes that must also be taken into consideration—for example, a higher taxable income might result in higher Medicare premiums—so it's important to discuss this decision with the family's financial advisor and tax advisor.

What is the 10-year rule?

Most non-spouse beneficiaries of IRAs who inherit the account on or after 1 January 2020 must abide by a "10-year rule":³

- Such beneficiaries must take annual RMDs in years one to nine following the original IRA owner's death if the IRA owner died on or after their required beginning date (RBD).⁵ If the beneficiary fails to take the RMDs on time, they will be subject to a penalty equal to 25% (reduced to 10% if the RMD is timely corrected within two years or when the IRS identifies) of the amount that should have been withdrawn. These annual distributions in years 1–9 do not apply to Roth IRAs and Roth 401(k)s that are otherwise subject to the 10-year rule, because Roth IRA and Roth 401(k) assets are not subject to lifetime RMDs.
- Regardless of whether the original IRA owner died on or after their RBD, all assets must be withdrawn by 31 December of the year containing the 10th anniversary of the owner's death.³

Case study: The partial Roth conversion strategy

The following case study consists of a hypothetical couple who is concerned with their tax liability in retirement, and they want to maximize the after-tax value of the wealth they plan to leave their son when they pass away. They are considering a partial Roth conversion strategy to mitigate the taxes paid on their IRA assets.

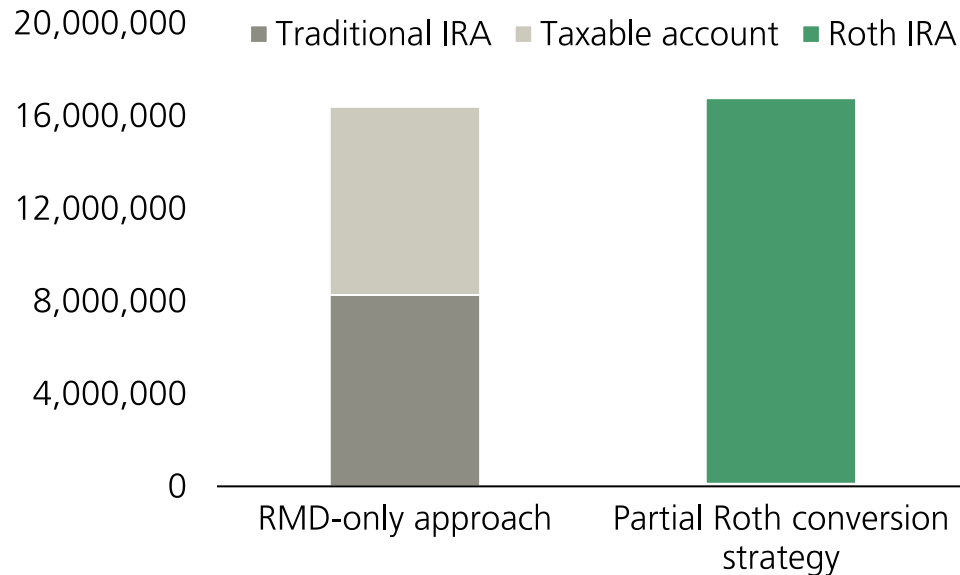
In **Scenario #1 (RMD-only)**, they will withdraw only RMDs and reinvest the distribution amount (net of taxes) not needed to fund spending into the taxable account.

In **Scenario #2 (Roth conversion strategy)**, they will complete partial Roth conversions in years when they have lower-than-normal income to “fill up” the 24% tax bracket in retirement. In addition to investing the Roth assets for growth, it is also assumed that they reinvest RMDs (net of taxes) that aren't needed to fund spending into their taxable accounts.

The figure below shows the pretax value of the couple's assets under the two scenarios, and the makeup of their accounts, when they both have passed away.

Fig. 8: Pretax portfolio values at the time of the wealth transfer

Pretax value of portfolios when the couple passes away



Source: UBS. For illustration purposes.

The partial Roth conversion strategy resulted in slightly more pretax wealth at the end of the plan (approximately \$382,000 more), but the advantage from the Roth conversion strategy is more significant when we look at the *after-tax* wealth that the son will inherit owing to the income tax-free distributions he will take from the Roth assets.

To assess the value of the wealth that will pass to the son, the case study accounts for the fact that some beneficiaries must distribute the entire IRA balance within a 10-year window following the original owner's death (in the year they pass away, the IRA still needs to meet the IRA owner's annual RMD).

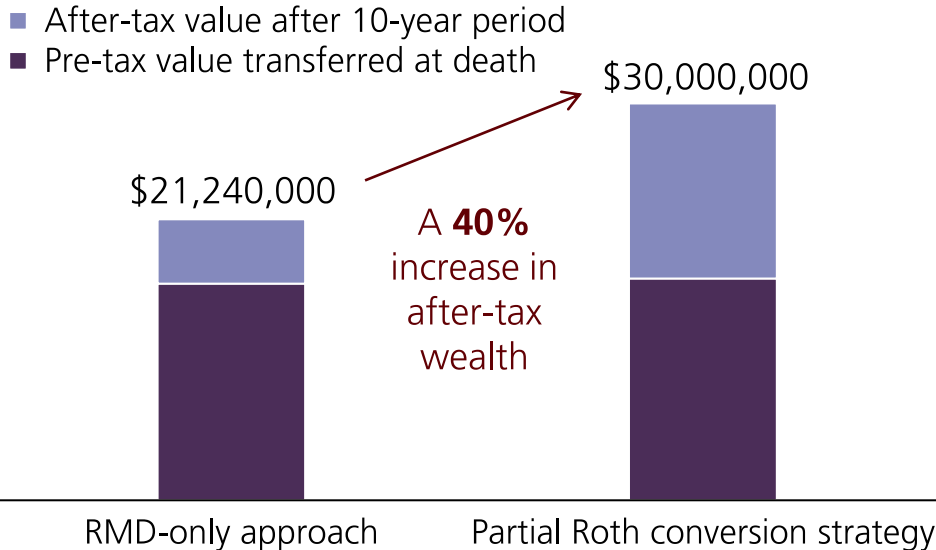
Since his parents passed away after they had begun taking their RMDs (i.e., after their RBD), he will need to take annual distributions from the Traditional IRA in years one to nine and then fully deplete the account balance at the end of the 10th year. In the Roth conversion scenario, he keeps the Roth IRA assets invested to maximize tax-free growth potential until he needs to distribute the full amount at the end of the 10-year period.

As a last step for calculating the son's after-tax wealth in each scenario, the case study assumes an after-tax return of 5% p.a. for the taxable account during the 10-year window.

As illustrated in the figure below, after accounting for income taxes and the distributions that are required from IRAs subject to the 10-year rule, the parents' decision to fill up their tax bracket with partial Roth conversions leads to a notable improvement in the after-tax value of the wealth that they are able to leave their son. In fact, at the end of the 10-year period the net increase is approximately **\$8.8 million**, a **40%** increase versus the RMD-only approach.

Fig. 9: Roth IRAs have a considerable advantage over Traditional IRAs for non-charitable beneficiaries thanks to their tax-free growth

Taxable assets, Traditional IRA, and Roth IRA transferred at death and the after-tax value of those assets at the end of the 10-year period



Source: UBS. For illustration purposes.

The SECURE 2.0 Act increased the applicable RMD age to 73 for those who reach age 73 in 2024 or later. And for those who reach age 73 in 2033 or later, they don't have to start taking lifetime RMDs until age 75. With RMDs beginning at later ages, the RMD-only approach may result in even lower levels of after-tax wealth because delaying distributions may put families into higher tax brackets in the future, and it may increase the tax rate on future portfolio growth. This means increases to the RMD age may make the partial Roth conversion strategy even more advantageous.

Families should consider working with their financial advisor and tax advisor on a strategy that maximizes their after-tax wealth potential.

Case study assumptions

- Results were calculated using the UBS Financial Goal Analysis tool
- **Social Security:** Benefits start at age 70 with an annual cost-of-living adjustment of 2.4%
- **Annual retirement spending:** \$250,000 in Year 1 of retirement and adjusted annually by 2.4%
- **Inherited IRA distributions:** To spread the taxable distributions over more tax years, the inherited IRA distributions were determined by dividing the account value by the number of years of the 10-year window remaining. In the final year of the analysis we distributed the entire balance to illustrate the full distribution requirement of the SECURE Act of 2019.
- **Taxes:** Taxes withheld include federal income taxes, assuming a filing status of Married Filing Jointly. No state or local income taxes were withheld. No estate taxes were withheld.
- **Investment portfolio assumptions:**
 - During the parents' retirement: The portfolio average return was 7.4% p.a.
 - After wealth transfer: 6% p.a. return for the Traditional IRA and Roth IRA assets and an after-tax return of 5% p.a. for the taxable accounts.

Considerations

- It's important that families consider federal estate taxes as well as state inheritance and estate taxes when determining the right approach for their situation.

- It may not make sense to convert Traditional IRA assets that are earmarked for charity to a Roth IRA, since those accounts may avoid income taxation altogether (excluding any RMDs) via QCDs or a qualified philanthropic bequest.

Endnotes

¹ Not all 401(k) providers allow to implement an in-plan Roth conversion. If they do not, you may need to roll your 401(k) into an IRA, if eligible, in order to implement the Roth conversion. Please refer to UBS's "Understanding your employer retirement plan distribution options" guide, available [here](#), for key considerations prior to deciding whether to roll your 401(k) to an IRA.

² Each Roth conversion is subject to a five-year holding requirement. If you withdraw recently converted Roth assets before five years have passed, your withdrawal may be subject to penalties. Roth conversions are irrevocable.

³ There are a few exceptions to the 10-year rule for inherited IRAs. In addition to spouse beneficiaries, the 10-year rule doesn't apply to beneficiaries who at the time of the IRA owner's death are disabled or chronically ill; it does not apply to minor children of the IRA owner (in which case the 10-year rule applies when they reach age 21); and it also does not apply to those who are not more than 10 years younger than the account holder (e.g., slightly younger or older siblings).

⁴ The SECURE 2.0 Act expanded the IRA charitable distributions to allow for a one-time election of up to \$55,000 (2026 limit, indexed for inflation) per individual to transfer via a qualified charitable distribution to a charitable gift annuity (CGA), charitable remainder unitrust (CRUT), or a charitable remainder annuity trust (CRAT). There are restrictions on the type of CRUTs and CRATs that can receive a QCD. For instance, they must be funded exclusively by the QCD.

⁵ The required beginning date (RBD) is April 1 of the year after the year the IRA owner attains their applicable RMD age (70½ for individuals who attained age 70½ before 2020; 72 for individuals who attained 70½ in 2020 or after; 73 for individuals who attain 72 in 2023 or later; and 75 for individuals who attain 73 in 2033 or later).

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