

AI-04519 Rollover to Roth Conversion-BA

Comprehensive Guide: Converting a Fidelity Rollover IRA in Fidelity to a Roth IRA While Targeting the 22% Federal Tax Bracket

Assume the following scenario:

- Married Filing Jointly (MFJ)
- Retirement portfolio: approximately \$2.3 million
- Entire Rollover IRA is currently held at Fidelity Investments
- Goal is to perform annual Roth conversions while remaining within the 22% federal income tax bracket whenever practical.
- We are starting from scratch and have never completed a Roth conversion before.

Please create a comprehensive, step-by-step implementation guide that answers the following:

1. Account Preparation

- Do we need to open a new Fidelity Roth IRA before performing a Roth conversion?
- Can the existing Fidelity login be used?
- Which accounts must be opened (Traditional IRA, Rollover IRA, Roth IRA, etc.)?
- Explain each account's purpose.

2. 401(k) Eligibility

- Can a Roth conversion be performed directly from a Fidelity 401(k)?
- Must the 401(k) first be rolled into a Rollover IRA?
- Under what circumstances can the conversion be completed directly versus requiring an intermediate rollover?

3. Step-by-Step Process

- Start with the current Fidelity 401(k).
- Show every click, form, decision, and account movement.
- Explain the entire process from beginning to end as if teaching someone who has never done a Roth conversion.

4. Tax Planning

- Explain how to calculate the maximum Roth conversion amount that keeps us within the 22% federal tax bracket.

- Include examples using various levels of Social Security income, dividends, interest, and capital gains.
- Explain how Medicare IRMAA, taxation of Social Security benefits, and state income taxes may affect the strategy.

5. Investment Transfer

- After the conversion, can Fidelity transfer ETF shares (such as FTEC) directly “in kind,” or must the investments be sold first?
- Explain how to minimize time out of the market.
- Discuss whether converting shares instead of cash is advantageous.

6. Best Known Methods (BKM)

- Describe the strategies commonly used by experienced retirement tax planners.
- Explain how to minimize lifetime taxes rather than focusing only on the current year.
- Discuss annual “tax-bracket filling,” multi-year Roth conversion ladders, and coordinating conversions before Required Minimum Distributions (RMDs) begin.

7. Potential Pitfalls

- List the most common mistakes investors make during Roth conversions.
- Explain how to avoid unexpected tax bills, withholding mistakes, IRMAA surcharges, and missed deadlines.

8. Illustrative Example

- Assume a \$2.3 million Fidelity 401(k) invested primarily in FTEC.
- Show a detailed multi-year Roth conversion strategy targeting the 22% tax bracket.
- Estimate the tax due each year, remaining balances, and long-term benefits over a 20- to 30-year retirement horizon.

Please present the response as a detailed retirement planning guide with flowcharts, decision trees, tables, practical examples, and actionable recommendations based on current U.S. tax law.

You can also expand this into a master-level Roth Conversion Playbook (50–100 pages) covering advanced topics such as Roth conversion sequencing, tax-gain harvesting, Qualified Charitable Distributions (QCDs), IRMAA optimization, legacy planning, and estate tax strategies.

Master Playbook: Fidelity Rollover & Roth Conversion Strategy

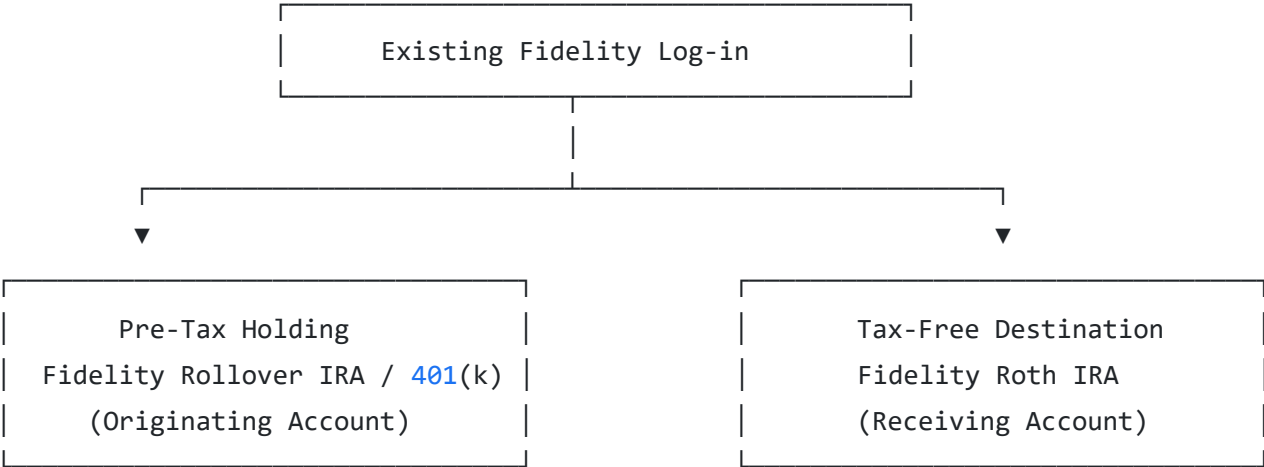
Optimizing the 22% Federal Tax Bracket for Married Filing Jointly (MFJ)

Executive Summary & Strategic Roadmap

Converting pre-tax retirement assets (such as a 401(k) or Rollover IRA) to a Roth IRA allows you to pay taxes at today’s known rates in exchange for **tax-free growth and tax-free withdrawals for life**, exempt from Required Minimum Distributions (RMDs).

For a **Married Filing Jointly (MFJ)** couple managing a **\$2.3 Million portfolio**, the primary objective is systematically transferring wealth from the pre-tax bucket to the Roth bucket while maximizing utilization of the **22% federal marginal tax bracket**, avoiding unnecessary jumps into the 24%+ brackets, and minimizing Medicare IRMAA surcharges.

1. Account Preparation & Structure



Account Breakdown & Purposes

Account Type	Purpose & Functionality	Required for Conversion?
Existing Fidelity Profile	Single master username/password managing all individual, joint, and retirement accounts.	Yes (Use existing login)
Fidelity Rollover IRA	Holds pre-tax assets rolled over from prior employer 401(k) plans. Preserves commingling	Originating Account

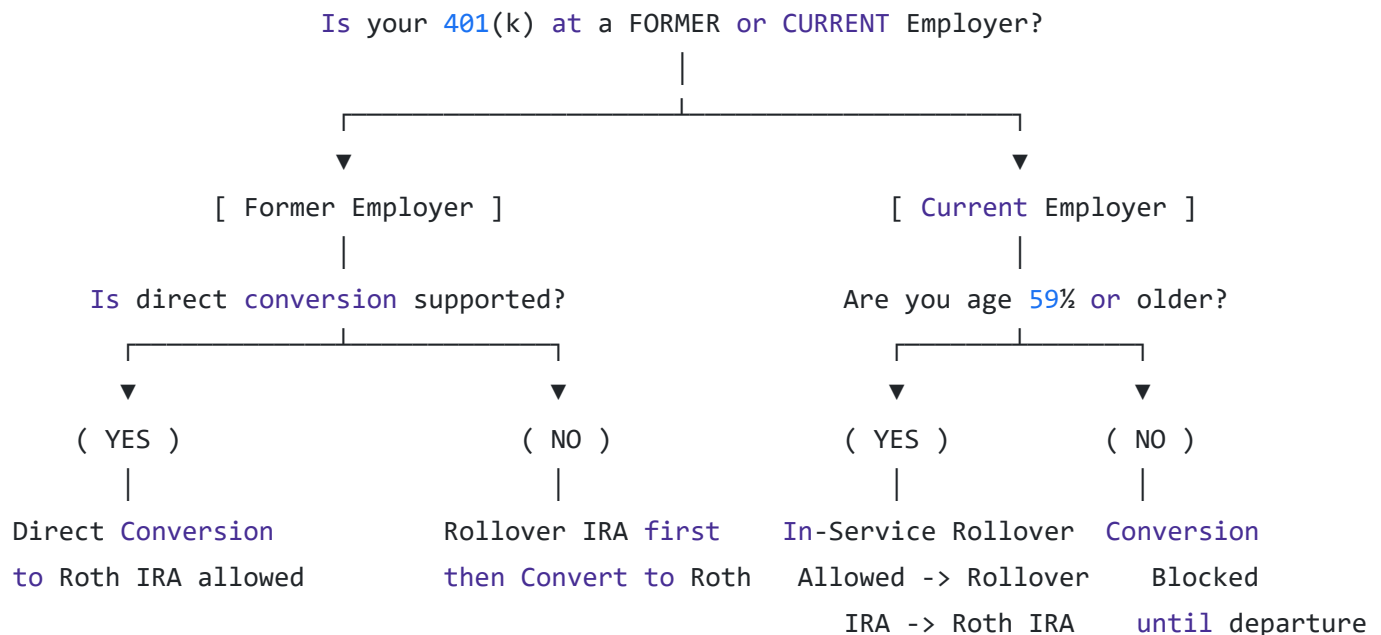
	rights to roll back into a active 401(k) if ever needed.	
Fidelity Roth IRA	Holds after-tax contributions and converted funds. Growth and qualified distributions are 100% tax-free.	Destination Account (Must open if not already existing)
Traditional IRA	Functionally identical to a Rollover IRA for tax purposes.	Optional (Not needed if Rollover IRA exists)

Key Preparation Rules

1. **Single Fidelity Login:** You do **not** need a new login. Log into [Fidelity.com](https://fidelity.com) with your existing credentials; all existing and newly opened accounts populate under your unified portfolio view.
2. **Opening the Roth IRA:** If a Fidelity Roth IRA is not open, create one online in minutes (Navigating to: *Open an Account* -> *Roth IRA*). Ensure ownership titling matches (e.g., individual ownership, listing primary/contingent beneficiaries).

2. 401(k) Eligibility & Conversion Paths

Can you convert directly from an active or former employer **Fidelity 401(k)** to a **Fidelity Roth IRA**, or must you use an intermediate **Rollover IRA**?



Conversion Path Rules

1. Former Employer 401(k):

- **Direct Conversion:** Fidelity allows direct 401(k)-to-Roth IRA transfers for most terminated plans. Tax withholding options will prompt during execution.
- **Two-Step Conversion (Recommended):** Roll the 401(k) pre-tax dollars into a **Fidelity Rollover IRA** first, then convert from the Rollover IRA to the Roth IRA.
- *Why two steps?* Institutional 401(k) plans often restrict partial conversions or force cash liquidations. A Rollover IRA gives you **100% control over timing, partial amounts down to the exact dollar, and in-kind ETF share transfers.**

2. Current Employer 401(k):

- Generally prohibited unless your plan permits **In-Service Distributions** (typically available after age 59½) or after-tax mega-backdoor Roth conversions.

3. Step-by-Step Implementation Guide (Fidelity Platform)

This step-by-step walkthrough covers executing a partial annual Roth conversion from a **Fidelity Rollover IRA to a Fidelity Roth IRA.**

Phase I: Initial Setup

1. Log into **Fidelity.com**.
2. Go to **Accounts & Trade** → **Transfers**.
3. Select **Deposit, withdraw, or transfer money**.

Phase II: Transfer Configuration

4. Which account is money moving from?

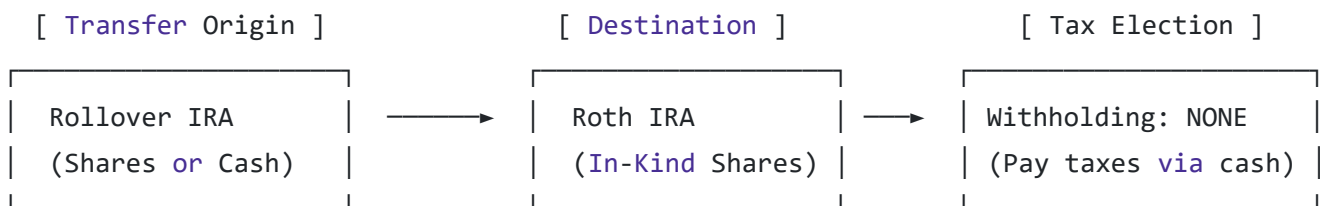
- Select: Fidelity Rollover IRA (Pre-Tax)

5. Which account is money moving to?

- Select: Fidelity Roth IRA (After-Tax)

6. Transfer Type:

- Select: **Convert to a Roth IRA.**



Phase III: Share Selection & Tax Withholding Elections

7. **Asset Selection:** Choose between **Cash** or **In-Kind Shares** (e.g., selecting specific shares of **FTEC**).
8. **Amount Specification:** Enter the exact dollar value or number of shares calculated during tax planning (e.g., \$110,000).
9. **Tax Withholding Election (CRITICAL STEP):**
 - Fidelity will prompt: "*Do you want federal or state income taxes withheld from this conversion?*"
 - **ALWAYS SELECT: 0% Withholding (Do Not Withhold Taxes).**
 - *Reason:* Withholding taxes directly from IRA assets triggers a 10% early withdrawal penalty on the withheld portion if under age 59½ and depletes the tax-free compounding potential of your Roth portfolio. Pay taxes using external taxable cash or estimated tax payments.

Phase IV: Verification & Execution

10. Review the summary page confirming:
 - Source: Rollover IRA
 - Destination: Roth IRA
 - Taxable Event Warning: Acknowledged.
 - Tax Withholding: \$0 (0%).
11. Click **Submit Conversion**. Transfer settles immediately or within 1 business day for in-kind ETF shares.

4. Tax Bracket Mechanics, IRMAA, & Income Integration

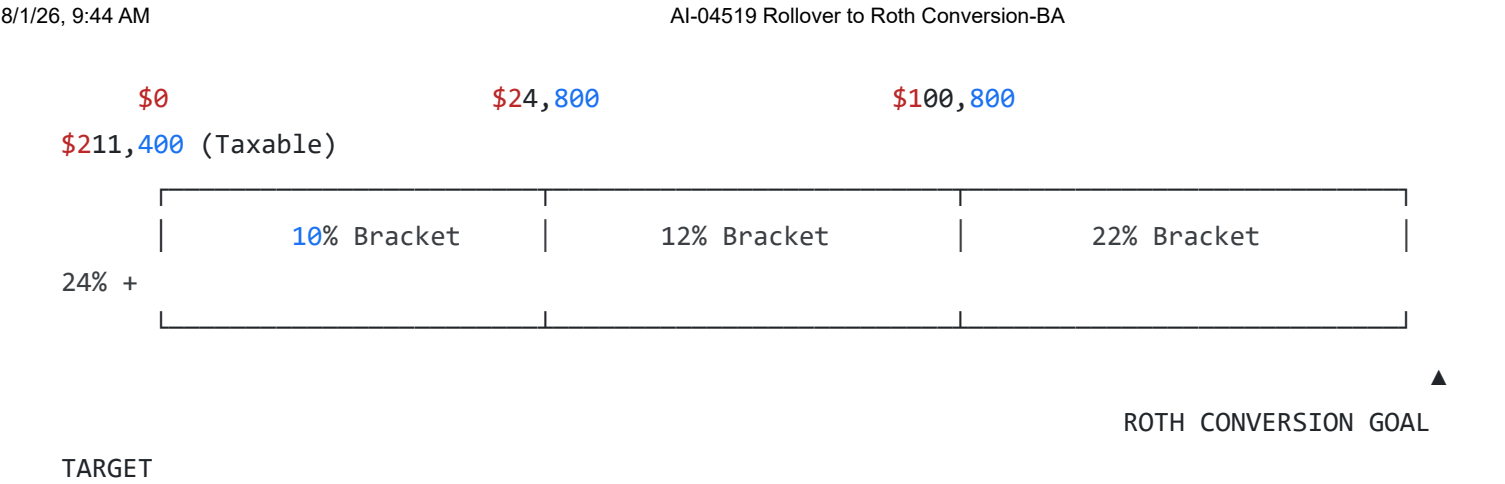
2026 Federal Income Tax Brackets (Married Filing Jointly)

To remain within the 22% bracket, your **Taxable Income** must not exceed **\$211,400**.

$$\text{\$}\backslash\text{tax}\{\text{Taxable Income}\} = \backslash\text{tax}\{\text{Adjusted Gross Income (AGI)}\} - \backslash\text{tax}\{\text{Standard Deduction}\}\text{\$}$$

For 2026, the MFJ Standard Deduction is **\$32,200** (plus **\$1,650** per spouse if age 65 or older).

2026 Gross Income Capacity (Top of 22% Bracket)	
Max Taxable Income (22% Top Limit)	\$211,400
Plus: Standard Deduction (Under age 65)	+ \$32,200
MAXIMUM PERMISSIBLE AGI	= \$243,600



Target Math Formula for Maximum Roth Conversion

$$\text{Max Conversion} = \$243,600 - (\text{Taxable Social Security} + \text{Ordinary Dividends} + \text{Interest} + \text{Capital Gains} + \text{Other Income})$$

Income Matrix Scenarios (MFJ 2026 Tax Year)

Assuming both spouses are under 65 (Standard Deduction = \$32,200). Top of 22% Taxable Bracket = \$211,400. Max AGI Target = \$243,600.

Income Source	Scenario A (Low Other Income)	Scenario B (Moderate Income + SS)	Scenario C (High Cap Gains/Dividends)
Social Security (Gross)	\$0	\$40,000	\$60,000
Taxable Social Security (85%)	\$0	\$34,000	\$51,000
Qualified Dividends & Cap Gains	\$10,000	\$20,000	\$45,000
Interest & Other Ordinary Income	\$5,000	\$10,000	\$15,000
Baseline AGI (Before Conversion)	\$15,000	\$64,000	\$111,000
Max Roth Conversion Space	\$228,600	\$179,600	\$132,600
Final Target AGI	\$243,600	\$243,600	\$243,600
Standard Deduction	-\$32,200	-\$32,200	-\$32,200

Final Taxable Income	\$211,400	\$211,400	\$211,400
----------------------	-----------	-----------	-----------

Medicare IRMAA Surcharge Cliffs (2026 / 2-Year Lookback)

When converting pre-tax assets, monitor Medicare **Income-Related Monthly Adjustment Amounts (IRMAA)**. IRMAA uses Modified Adjusted Gross Income (MAGI) from **2 years prior**.

IRMAA Warning: Unlike progressive federal tax brackets where only dollars above the threshold are taxed higher, **IRMAA operates as a rigid cliff**. Going **\$1 over** a tier boundary triggers the full surcharge for both spouses.

MFJ 2026 IRMAA Tiers (2-Year Lookback)

≤ \$218,000 MAGI	\$218,001 - \$274,000	\$274,001 - \$342,000	> \$342,000
Base Rate	IRMAA Tier 1	IRMAA Tier 2	Tier 3+
\$0 Extra	+\$2,297/yr (Couple)	+\$5,772/yr (Couple)	Higher

Strategic Decision for 22% Bracket Targeting

- The 22% bracket ceiling for AGI is **\$243,600**.
- Notice that **\$243,600** falls inside **IRMAA Tier 1 (\$218,001 – \$274,000)**.
- **Optimization Decision:** If enrolled in Medicare, fill up to **\$218,000 MAGI** to avoid IRMAA entirely, **OR** intentionally fill up to **\$243,600 AGI** (top of 22% bracket) if the long-term benefit of compounding tax-free growth outweighs the **\$2,297/year combined couple IRMAA Tier 1 surcharge**.

5. Investment Transfer Mechanics & Asset Location

In-Kind Transfers vs. Selling to Cash

Fidelity allows **in-kind transfers** of ETFs (such as **FTEC - Fidelity MSCI Information Technology Index ETF**), mutual funds, and individual stocks from a Rollover IRA directly into a Roth IRA.

IN-KIND ETF TRANSFER	
Fidelity Rollover IRA (Pre-Tax)	Transfers 250 Shares of FTEC (Market Value = \$100,000)

Execution	No selling required. Shares shift instantly.
Fidelity Roth IRA (After-Tax)	Receives 250 Shares of FTEC Taxable event logged at \$100,000 value.

Key Advantages of In-Kind Conversion:

1. **Zero Time Out of Market:** Eliminates market-timing risk (e.g., selling FTEC, waiting for cash settlement, transferring, and buying back after a potential price surge).
2. **Preservation of Positions:** Retains original asset allocation seamlessly.
3. **Cost Basis Reset:** Inside the Roth IRA, cost basis tracking is irrelevant because all future capital gains, dividends, and growth are **100% tax-free**.

6. Strategic Best Known Methods (BKM)

RETIREMENT TAX PLANNING TIMELINE

Age **59½** - **75**

Age **75+**

GOLDEN WINDOW FOR CONVERSIONS	MANDATORY RMD SURGES
• Low wage income	• RMDs push into 24%+ brackets
• Systematically fill 22% bracket	• High IRMAA surcharges
• Deplete pre-tax balances	• Unfavorable single-tax rates

1. Lifetime Tax Minimization vs. Single-Year Optimization

Do not evaluate Roth conversions solely on current-year tax liabilities. The goal is minimizing **lifetime cumulative tax burden** across both spouses and their heirs.

2. The "Pre-RMD Golden Window"

The optimal period for conversions is between retirement (when wage income drops to zero) and age 75 (when **Required Minimum Distributions** begin). During this window, baseline taxable income is at its lowest, permitting large conversions at 12% and 22% marginal rates.

3. Mitigating the "Widow/Widower Tax Trap"

When one spouse passes away, the surviving spouse must file as **Single**. Single tax brackets are half as wide (the 22% top limit drops from \$211,400 to \$105,700). Unconverted IRAs force large RMDs onto single filers, pushing them into 24%, 32%, or 35% brackets. Converting aggressively while filing jointly protects the surviving spouse.

7. Potential Pitfalls & Risk Mitigation

Pitfall	Mitigation Strategy
1. Tax Withholding from IRA (Under Age 59½ Penalty)	NEVER allow Fidelity to withhold taxes from the IRA. Pay taxes from external taxable savings.
2. IRMAA Cliff Violations (\$218k or (2-Year Lookback)	Keep MAGI precisely \$1 below IRMAA boundaries (\$274k) unless intentionally straddling.
3. Pro-Rata Rule Miscalculation basis, Form (Form 8606 Errors) IRAs.	If you hold non-deductible (after-tax) IRA 8606 dictates proportional taxation across all
4. Decayed Time Horizon or if (Short-term liquidity)	Do not convert if funds are needed within 5 years external tax cash is unavailable.

8. Illustrative Model: \$2.3M Portfolio Trajectory

Scenario Parameters

- **Filing Status:** Married Filing Jointly (MFJ)
- **Initial Pre-Tax IRA Balance:** \$2,300,000 (Invested in FTEC / Tech Growth)
- **Assumed Portfolio Return:** 7.0% Net Annual Compound Growth
- **Strategy:** Annual Roth Conversions filling the 22% bracket (\$120,000 average conversion/year) over 10 years.
- **Estimated Marginal Tax Rate on Conversion:** 22% effective federal rate.

10-Year Conversion Execution Projection

Year	Starting Rollover IRA	Annual Conversion	Annual Tax Paid (22%)	Growth (7%)	Ending Rollover IRA	Ending Roth IRA	Total Wealth
1	\$2,300,000	\$120,000	\$26,400	\$152,600	\$2,332,600	\$128,400	\$2,461,000
2	\$2,332,600	\$125,000	\$27,500	\$154,532	\$2,362,132	\$271,138	\$2,633,270
3	\$2,362,132	\$130,000	\$28,600	\$156,249	\$2,388,381	\$429,118	\$2,817,499
4	\$2,388,381	\$135,000	\$29,700	\$157,737	\$2,411,118	\$603,656	\$3,014,774
5	\$2,411,118	\$140,000	\$30,800	\$158,978	\$2,430,096	\$796,112	\$3,226,208
6	\$2,430,096	\$150,000	\$33,000	\$159,607	\$2,439,703	\$1,011,840	\$3,451,543
7	\$2,439,703	\$160,000	\$35,200	\$159,579	\$2,439,282	\$1,252,669	\$3,691,951
8	\$2,439,282	\$175,000	\$38,500	\$158,500	\$2,422,782	\$1,525,356	\$3,948,138
9	\$2,422,782	\$190,000	\$41,800	\$156,295	\$2,389,077	\$1,832,131	\$4,221,208
10	\$2,389,077	\$210,000	\$46,200	\$152,535	\$2,331,612	\$2,185,380	\$4,516,992

Long-Term Value Comparison at Age 85 (30-Year Outlook)

30-Year Wealth Projection (Age 85)	
Without Conversions (100% Pre-Tax)	\$6.8 Million
• RMD Burden at Age 85	> \$310,000/year forced taxable
• Effective Marginal Tax Rate	32% - 35%
• Net After-Tax Estate Value	~\$4.6 Million
With 22% Bracket Conversions Strategy	\$7.8 Million
• Tax-Free Roth Portion	\$5.2 Million (100% Tax-Free)
• Mandatory RMD Burden	Reduced by > 60%
• Net After-Tax Estate Value	~\$7.1 Million
NET LIFETIME TAX SAVINGS & WEALTH GAIN	+\$2,500,000+

Action Plan Checklist

1. ☐ **Verify Account Setup:** Ensure your **Fidelity Roth IRA** is open and linked under your main Fidelity login.
2. ☐ **Consolidate Pre-Tax Funds:** If your \$2.3M is still inside a former employer 401(k), execute a direct rollover into your **Fidelity Rollover IRA**.
3. ☐ **Calculate Annual Bracket Space:** Run your year-to-date income projections (interest, dividends, realized capital gains) and subtract from **\$243,600** to determine exact conversion dollars.
4. ☐ **Check IRMAA Thresholds:** If enrolled in Medicare, confirm whether your target conversion crosses **\$218,000** or **\$274,000** MAGI boundaries.
5. ☐ **Execute Transfer In-Kind:** Initiate the online transfer from Rollover IRA → Roth IRA, selecting **In-Kind share transfer** for high-growth assets (e.g., FTEC).
6. ☐ **Set Tax Withholding to 0%:** Do not let Fidelity withhold taxes from the IRA.
7. ☐ **Pay Taxes External Cash:** Pay quarterly estimated federal/state tax payments or make a year-end payment from taxable cash savings.

