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# Roth Conversion Ladder Planner

A Roth conversion ladder is most powerful when it is planned as a multi-year withdrawal system, not as a one-time tax move. The goal is simple: shift money from pre-tax accounts into Roth during low-income years, wait out each five-tax-year seasoning period, and create future tax-free withdrawal flexibility without blowing up federal brackets, ACA premium tax credits, or state-tax bills. This guide shows how to size annual conversions, how to decide whether filling the 10%, 12%, or 22% bracket is worth it, how to model marketplace MAGI before you submit a conversion order, and how to maintain a spreadsheet that keeps each tranche, access date, and tax cost clear years later.

## 1. Foundation

A Roth conversion ladder lets you spend pre-tax retirement money before age 59 1/2 without the 10% early-withdrawal penalty, but only if the calendar is respected. You convert a chosen amount from a traditional IRA or old 401(k) rollover IRA into a Roth IRA, pay ordinary income tax on that converted amount in the year of conversion, and then wait five tax years before withdrawing that specific conversion basis penalty-free. Each conversion gets its own clock. A \$40,000 conversion done for tax year 2026 is generally available on January 1, 2031, while a 2027 conversion opens on January 1, 2032. That is why early retirees often build a series of annual conversions rather than one giant move: each rung funds a future spending year, and the ladder only works if near-term living expenses are covered by taxable brokerage assets, cash, severance, or other bridge resources while the first five years season.

The right conversion amount is usually not a round number. It is the amount that fills a chosen tax bracket after accounting for your standard deduction, taxable interest, dividends, capital gains, rental income, part-time work, Social Security, pension income, and any other ordinary income already on the return. Start with a draft tax projection before the conversion. Then decide what bracket you are intentionally willing to fill. Many households target the top of the 10% or 12% bracket in low-income years because the

long-term trade is attractive: pay tax now at a known low rate in exchange for fewer future required minimum distributions, more Roth flexibility, and lower future taxable income. Others deliberately fill part of the 22% bracket when they expect higher future rates, large traditional balances, or inherited IRA compression. The key is to define a ceiling before emotions, year-end headlines, or a market dip tempt you into an oversized conversion.

ACA subsidies are where many otherwise sensible conversion plans break. Marketplace premium tax credits are based on household MAGI, and Roth conversions increase MAGI dollar for dollar. That means a conversion that looks cheap on a federal bracket chart can become expensive once it reduces subsidies, raises benchmark premiums, or changes cost-sharing eligibility. The correct comparison is not just tax owed on the conversion. It is total current-year cost: federal tax plus state tax plus lost ACA subsidy value. Households retiring in their forties or fifties often discover that the subsidy effect is the real limit, especially if the conversion pushes MAGI from a comfortably subsidized range into a much more expensive one. If you are using ACA coverage, run every conversion through the marketplace lens before submitting it.

State taxes and recordkeeping are the other two pillars of a usable ladder. Some states do not tax retirement income the same way as the federal government, some partially exclude pension or IRA income above certain ages, and a move between states can make one conversion year dramatically cheaper than another. A partial-year residency move can also create proration issues and withholding surprises. Because the consequences play out over a decade, memory is not enough. Your planner should track conversion year, amount, federal bracket used, estimated federal tax, estimated state tax, projected ACA MAGI, tax payment method, and the first penalty-free access date for each rung. That spreadsheet is not busywork. It is the operating manual that tells you what you can spend in any future year without guessing, double-taxing yourself, or breaking the five-year rules.

## 2. Step-by-Step System

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### **Map the five-year bridge before converting a dollar**

Start with spending, not taxes. Write down the annual amount your household must fund before the first conversion becomes available. Include housing, food, insurance, taxes, healthcare, and irregular expenses. Then identify which assets cover years one through five: taxable brokerage sales, cash reserves, Treasury bills, severance, consulting income, or a spouse's paycheck. If you need \$70,000 per year and expect \$15,000 from part-time work, the bridge still needs roughly \$55,000 a year from non-ladder sources. Many people understand the tax logic of a conversion ladder but forget that the first rung does not pay today's bills. Your ladder size should therefore be coordinated with a separate bridge plan. If the bridge is thin, prioritize liquidity first. A perfect bracket-fill strategy is useless if you are forced to tap a fresh conversion early and trigger penalties.

2

### **Calculate bracket room from a full tax projection**

Build a draft return using last year's Form 1040 as a template. Replace old income with this year's expected numbers: dividends, interest, realized gains, side income, rental income, pensions, unemployment, and any deductions still available. Subtract the standard deduction or your realistic itemized deduction estimate. What remains is the income already consuming brackets. Now choose the top bracket you want to fill and back into the conversion amount that reaches that line without crossing it. Do not forget that qualified dividends and long-term capital gains can stack on top of ordinary income in ways that affect total tax even if they are taxed at different rates. The cleanest conversion plan is the one that turns vague advice like fill low brackets into a repeatable formula you can rerun every fall with current numbers instead of making a November guess.

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### **Overlay ACA subsidy math and state-tax cost**

After you know your tentative federal bracket room, run the same conversion amount through your health-insurance and residency rules. Add the proposed conversion to household MAGI and estimate what happens to marketplace premiums for the rest of the year. If you have advance premium tax credits, remember that the true reconciliation happens on the tax return, so an oversized year-end conversion can create a nasty payback surprise. Then layer in state income tax, including local tax if applicable, part-year residency rules, or any planned move. This is where many planners learn that an extra \$20,000 conversion is not really taxed at only 12%; after lost subsidies and state tax it may feel closer to 20% or 25%. That does not always make the conversion wrong, but it changes the comparison and often points toward a smaller rung or a different conversion year.

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### **Schedule conversions by tax year and access year**

Once the amount is set, place each planned conversion on a timeline. A practical ladder spreadsheet should show the conversion tax year in one column and the first penalty-free access date in another. For most early retirees, the simple rule is: convert for year N, spend beginning year N+5. That framing prevents one of the most common errors, which is thinking of the ladder as one blended pot instead of separate rungs. Decide whether you prefer early-year conversions, which maximize time for growth inside the Roth, or late-year conversions, which give you better tax visibility. Many households split the difference: they do a modest early conversion based on a draft estimate, then top up in November or December once dividends, realized gains, and ACA income are clearer. Whatever timing you choose, record it by tax year so future withdrawal decisions remain clean.

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### **Track every rung in one spreadsheet with tax notes**

Your tracker should answer three questions instantly: how much was converted, what did it cost, and when does it become accessible? At minimum include columns for conversion date, tax year, source account, gross amount converted, withholding used or not used, estimated federal tax, estimated state tax, projected MAGI after conversion, ACA premium impact, five-year access date, and where the confirmation documents are stored. Add a notes column for unusual items such as a midyear move, a marketplace estimate revision, or a partial conversion due to custodian delays. Reconcile the spreadsheet to Form 1099-R, Form 5498, and your tax return every year. If you convert annually for a decade, the spreadsheet becomes the only reliable record of which dollars are safe to tap and which still need seasoning.

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### **Review the ladder annually after tax season and before open enrollment**

A conversion ladder is not set once and forgotten. Review it after your return is filed so you can compare projected tax cost with actual tax cost, then review again during ACA open enrollment when next year's subsidy assumptions are easiest to estimate. Re-run the plan whenever one of the major variables changes: you move states, sell a business, realize large capital gains, start Social Security, inherit an IRA, or begin Medicare. In some years the best conversion amount is zero because the current-year cost is too high relative to future benefit. In other years, especially after a move to a no-tax state or during a gap between work and Social Security, you may want to convert aggressively. The ladder works because it is flexible. The discipline is in measuring each year, not in forcing the same conversion amount forever.

### 3. Key Worksheets & Checklists

Use this section as the control panel for the ladder. The first card sizes the annual conversion, the checklist keeps taxes and subsidy issues visible before money moves, and the tracker lets you see which future spending years are already funded by seasoned conversions.

## 1. Ladder Sizing Worksheet

<b>Annual spending target</b>	Write the amount your household needs after leaving full-time work, including healthcare, taxes, and irregular spending.
<b>Years 1-5 bridge assets</b>	List the cash, taxable brokerage, T-bills, severance, or earned income that will cover living costs before the first rung opens.
<b>Other ordinary income</b>	Add wages, consulting income, pensions, rental profit, interest, and nonqualified dividends that already consume tax brackets.
<b>Deductions</b>	Enter the standard deduction or realistic itemized deductions so you know how much bracket room remains for conversion income.
<b>Chosen top bracket</b>	Decide in advance whether you are filling the 10%, 12%, or part of the 22% bracket, and note why that bracket is the ceiling.
<b>Federal conversion room</b>	Top of chosen bracket minus projected taxable income before conversion.
<b>ACA MAGI after conversion</b>	Project household MAGI with the conversion included and record the resulting premium or subsidy change.
<b>State-tax cost</b>	Estimate resident or part-year state income tax triggered by the conversion, including any local tax.
<b>Final annual target</b>	Choose the conversion amount that still looks attractive after federal tax, state tax, and subsidy effects are all included.

## 2. Execution Checklist

- Confirm you have five years of living expenses covered without depending on the current year's conversion.
- Project taxable income before conversion using real statements, expected dividends, and any planned capital gains sales.
- Choose the highest marginal bracket you are deliberately willing to fill and write down the reason.
- Model ACA MAGI with and without the conversion; keep the premium difference next to the tax estimate.
- Check whether a state move, partial-year residency, or retirement-income exclusion changes the timing.
- Pay conversion tax from cash outside the IRA whenever possible so the full amount reaches the Roth.
- Record each conversion by tax year and note the first January when that rung can be spent penalty-free.
- Save custodian confirmations, Form 1099-R, Form 5498, and the final tax return in the same folder as the spreadsheet.
- Review the ladder every year after filing taxes and again before ACA open enrollment.

### 3. 10-Year Conversion Tracker

Conversion Year	What to Record	Access Year
Year 1	Amount converted, tax bracket filled, premium impact, and document links for the first rung.	Year 6 spending
Year 2	Update for any income changes, market declines, or state-tax changes that alter sizing.	Year 7 spending
Year 3	Note whether you used an early-year conversion, a year-end true-up, or split timing.	Year 8 spending
Year 4	Compare projected tax cost with actual tax cost and update the planning assumptions.	Year 9 spending
Year 5	Mark the first rung as seasoned and ready for withdrawal under the ladder plan.	Year 10 spending
Years 6-10	Continue the same log so every future withdrawal has a documented source and start date.	Roll forward one year at a time

## 4. Common Mistakes

### **Converting up to a bracket line without checking ACA MAGI**

Federal bracket charts are only part of the decision. For pre-Medicare retirees on marketplace insurance, the subsidy impact can be as large as or larger than the federal tax itself. A conversion that technically stays in a low bracket may still raise premiums enough to make the move unattractive. Always compare total current-year cost, not just the marginal federal rate.

### **Forgetting that every conversion has its own five-year clock**

The ladder is not one blended pool of money. Each conversion starts a separate seasoning period based on tax year. If you convert in multiple years and then withdraw casually from the Roth without a tracker, it becomes easy to tap a newer rung too early. That mistake can reintroduce penalties right when the ladder was supposed to prevent them.

### **Paying conversion tax from the IRA itself**

Withholding tax from the converted amount shrinks the dollars that actually reach the Roth and can create a penalty problem if you are under 59 1/2 because the withheld amount is treated like a distribution. A cleaner approach is to pay the tax from taxable cash. That preserves the full converted balance for future tax-free growth and keeps the ladder math straightforward.

### **Ignoring state-tax timing and residency rules**

Moving from a high-tax state to a no-tax state can change the value of waiting just one year to convert. The opposite is also true if you convert before a move and later realize the same transaction would have been cheaper after relocation. When a ladder stretches across many years, residency timing is not a minor detail. It can materially alter the after-tax outcome.

## 5. Next Steps

Open last year's tax return, your current ACA income estimate, and your account balances on the same day. Draft a one-page projection that shows taxable income before

conversion, the bracket ceiling you intend to fill, the MAGI effect on health insurance, and the state-tax cost if you live somewhere that taxes IRA conversions. Then build the spreadsheet before you move any money. When the first conversion is complete, save the confirmation PDF, note the first January when that rung becomes available, and set two recurring reminders: one for post-tax-season review and one for ACA open enrollment. If your situation includes a planned move, business sale, inherited IRA, or large taxable gain, run a separate scenario for each because those events can change the best conversion year more than market returns do. A good ladder is boring once it is built: clear records, measured tax costs, and no surprises when it is finally time to spend the seasoned rungs.

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