

CHECKLIST

Before you convert to a Roth

A conversion is permanent. A few questions are worth settling first.

Most Roth conversion advice assumes your retirement dollars will be taxed when they come out. For a pastor with a church 403(b)(9), some of them may not be. The housing allowance can change the answer, and a conversion can't be reversed. Walk through this before you convert anything.

RUN THIS BEFORE YOU CONVERT

- ☐ **Confirm which dollars may be housing-eligible.** Generally, only dollars in a qualifying church plan, from your ministerial service, can be designated as a retired minister's housing allowance. Money from outside sources or outside rollovers generally doesn't qualify.
- ☐ **Estimate what your housing allowance could cover.** The exclusion is capped by the lesser of the amount designated, your actual housing costs, or fair rental value. Those are the dollars worth protecting.
- ☐ **Compare that to the size of your account.** If your 403(b)(9) holds far more than housing will ever absorb, the excess is taxed on the way out regardless. That excess is what a conversion is generally for.
- ☐ **Remember that a conversion pre-pays the tax.** Converting means paying income tax now. If those dollars could have come out later as excludable housing allowance, the conversion creates a tax bill that may not have needed to exist.
- ☐ **Don't count on shrinking your RMDs.** A traditional 403(b)(9) still has required minimum distributions. If your plan designates them, the housing portion may be excludable like any other distribution. So the usual reason to convert may carry less weight for a pastor.
- ☐ **Check how the conversion would be done.** If your plan offers in-plan Roth conversions, the money stays in the church plan. Converting to a Roth IRA moves it out of the church plan, which generally ends housing allowance eligibility on those dollars.
- ☐ **Account for your spouse and your heirs.** A surviving spouse generally can't exclude a housing allowance unless it is for ministerial services they perform or performed. Dollars that might have been sheltered for you may be fully taxable to them. That can be a reason to convert some at your rate rather than theirs.
- ☐ **Ask whether your helper knows the clergy rules.** Conversion math can be done correctly and still miss the point if the housing allowance isn't in the model.

THE ONE THAT CANNOT BE UNDONE

Since 2018, a Roth conversion can't be recharacterized. Once you convert, the tax is owed and the decision stands. For a pastor, the dollars a housing allowance might shelter are often the ones worth a second look before converting.

This isn't an argument against converting. It's an argument against converting on autopilot. Look first at the dollars the housing allowance will never reach, and think carefully about the ones it might.

IF YOU WANT A SECOND SET OF EYES

The **Pastor Retirement Checkup** is a one-time review of your retirement picture by a fee-only fiduciary who works with pastors. A written summary and about ninety minutes by video. One engagement, one flat fee, no ongoing commitment. legacypathadvisors.com/pastor-retirement-checkup