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Converting to a Roth IRA 2010 and Beyond

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Historical perspective

- 1971 — Traditional IRAs introduced
- 1997 — Roth IRAs introduced
- 2010 — Roth IRA conversion limitations lifted

Limits on contributions (2010)

Roth IRA Contribution	MAGI — Single Filing Status	MAGI — Married Filing Jointly
Full Contribution	Less than $105,000	Less than $167,000
Partial Contribution	$105,000, but less than $120,000	$167,000, but less than $177,000
No Contribution	$120,000 or more	$177,000 or more

Limits on conversions

Roth IRA Conversion	2009 and before MAGI —Single or Married Filing Jointly	2010 and beyond MAGI —Single or Married Filing Jointly
Partial to Full Conversion	$100,000 or less	No MAGI limit
No Conversion	More than $100,000	N/A

Note: Conversion is also possible for 401(k) plans and 403(b) plans, if the plans allow.

Roth IRA fundamentals — What is a Roth IRA?

A Roth IRA is a retirement savings account in which clients can accumulate after-tax funds.

They differ from Traditional IRAs in several key ways:

- Eligibility to contribute to a Roth is subject to income limitations.
- Qualified[1] withdrawals are completely income tax-free.
- No required distributions for original account holders.
  - **Note:** A spouse who inherits a Roth IRA and treats it as his or her own is not required to take minimum distributions
  - **Note:** Other beneficiaries must begin talking minimum distribuitons after the Participant's death

Traditional IRA	Roth IRA
• Contributions may be made with pre-tax dollars (if eligibility rules are met), but may also be made with post-tax dollars • Principal grows tax-deferred • Income taxes paid on the pro rata amount of distributions at time of withdrawal • No MAGI limitations • Required minimum distributions commence at age 70½ • Contributions cannot be made after age 70½	• Contributions made with post-tax dollars • Principal grows tax-free • No additional taxes paid on any qualified distributions • Contribution income limitations, but not conversion income limitations • No required minimum distributions for original owner (“Participant”) • May fund Roth after age 70½ (if working and earning income)

Other key benefits

- Can pay the Roth conversion tax with non-Roth assets which preserve and enhance the value of the Roth IRA
- A Roth conversion can reduce the Participant’s taxable estate resulting in potential reduction of Federal and state estate taxes

[1]To be considered “qualified,” a distribution of earnings must meet the following two criteria: the distribution must be made after a 5-year holding period and the individual must have reached age 59½.

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Roth IRA fundamentals — Why convert?

The cost of a Roth conversion is the **payment of income taxes –** which we referred to as a "conversion tax."

Why pay income tax now for future tax-free distributions?

Conventional wisdom:

- Paying tax now for a tax-free benefit later is not generally economically beneficial
  - Not necessarily true when it comes to an IRA for two major reasons:
    - Nature of IRAs
      - Minimum distributions — Traditional IRA
      - No minimum distributions — Roth IRA
    - Special interrelationship between income tax and estate tax rules for IRAs

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Roth IRA fundamentals — Distributions

Qualified Roth IRA distributions can be taken tax- and penalty-free

A "qualified distribution" must meet both of the following rules:

- Must be made at least five years[1] after Participant funded Roth IRA
- Account owner must be either:
  - Age 59½ or older
  - Disabled
  - Beneficiary of a deceased Participant
  - Using the funds for a qualified first-time home purchase

All other distributions are non-qualified and may be subject to income tax and/or a 10% distribution penalty

Example of Roth IRA distribution timing rules

Age at initial funding	52	57
Age after five years	57	62
Age when tax- and penalty-free	59½	62

[1] The five year period begins on the first day of the year in which the Roth IRA is initially funded. For instance, if the first contribution is made December 1, 2010, the five year period commences, January 1, 2010, and would end December 31, 2014.

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Roth IRA fundamentals — Qualified distributions

What is a qualified distribution?

A qualified distribution is a tax-free distribution made after the so-called "five-year holding period" and on or after the owner reaches age 59½.[1] See the examples at right.

Example 1	**Facts** Kim, age 60, contributes funds between January 1, 2006, and April 15, 2007, that apply to 2006, then the five-year period begins on January 1, 2006, and ends on December 31, 2010. **Result** Any distribution made on or before December 31, 2010, would not be a qualified distribution. *Note: Applies to all Roth IRAs (because multiple Roth IRAs are deemed to be one big Roth IRA).*
Example 2	**Facts** Same as Example 1, except that Kim dies and leaves her Roth IRA to husband, Tom. Tom, age 62, treats the Roth IRA as his own (spousal rollover). **Result** In testing of the five-year rule, look to when Tom had made the first contribution to his other Roth IRAs. If the first contribution was the rollover from Kim, then he will have to wait five years from January 1 of Kim's year of death. *Note: This is NOT treated as made to a beneficiary (because of the rollover). If Tom had not elected spousal rollover treatment then Kim's five year period would apply.*

This is a hypothetical example meant for illustrative purposes only

[1] Additional exceptions apply for beneficiary withdrawals, and participant withdrawals for disability, or qualified first time purchase of a home.

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Roth IRA fundamentals — Distribution ordering rules

Non-qualified distributions may be subject to income tax and/or a 10% distribution penalty depending on the source of such distributions.

The IRS looks at Roth IRAs as three "buckets" of money.

- Distributions must be taken in the order at right.
- Each category must be exhausted before moving on to the next.
- Requirements must be met to avoid taxes and penalties.

1. Contributions	Nontaxable and no penalty
2. Conversions	Nontaxable; no penalty after five-year holding period or if account holder has reached age 59½ or other specific exceptions are met
3. Earnings	Nontaxable and no penalty if qualified; taxable if nonqualified (10% penalty applies if under age 59½ or other specific exceptions are not met)

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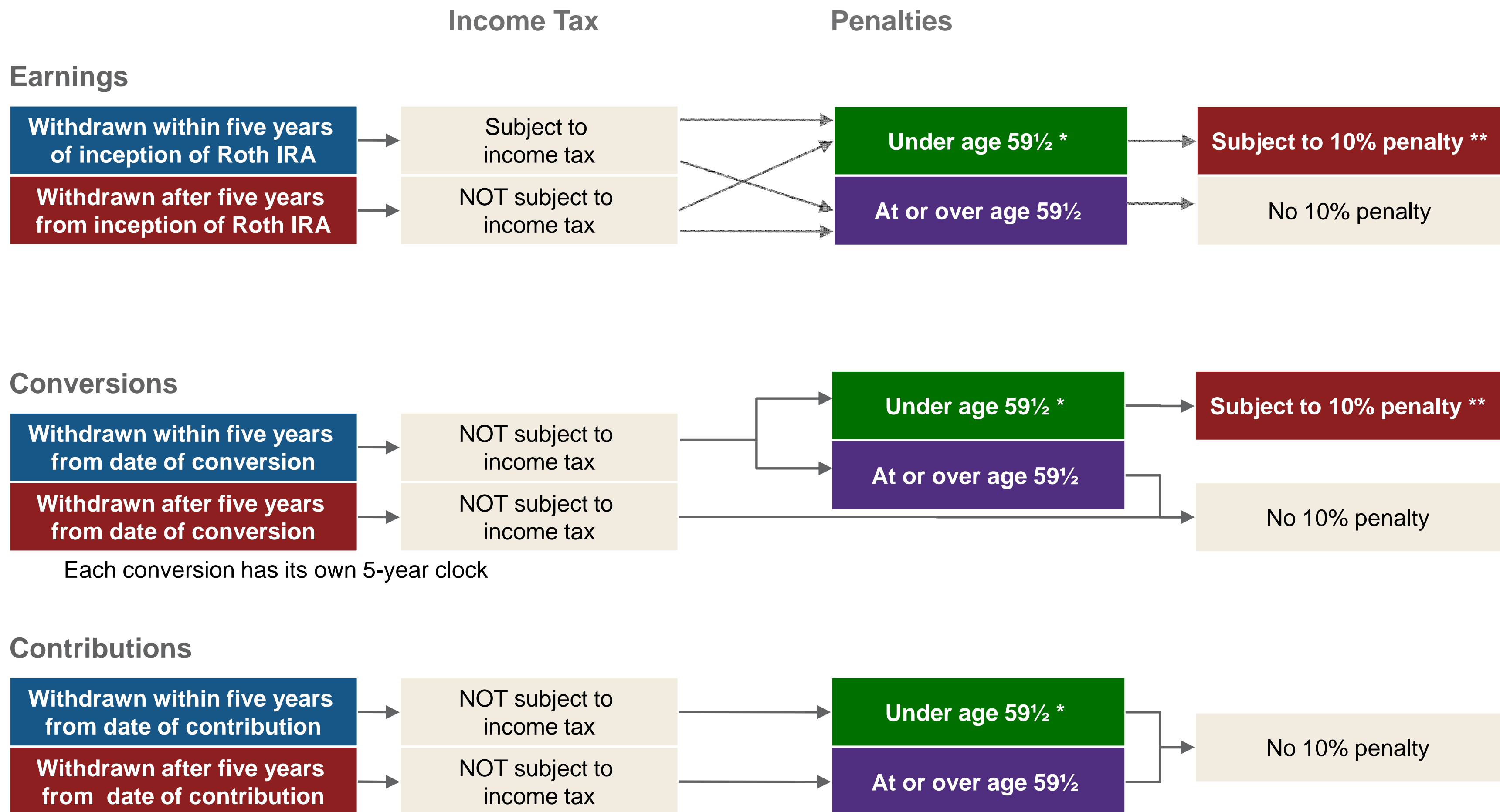
Roth IRA — Income and penalty taxes



* Exception for beneficiary withdrawals, and participant withdrawals for disability, or qualified first time purchase of a home.

** Exception for beneficiary withdrawals, and participant withdrawals on or after age 59½ or for disability, qualified first time purchase of a home, and numerous other exceptions under IRC section 72(t), including certain unreimbursed medical expenses, higher education expenses, distributions part of substantially equal periodic payments.

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Roth IRA fundamentals — Two ways to fund a Roth IRA

Contributions

- Annual contributions to the Roth IRA
- These are small amounts — currently $5,000 or $6,000 (if over 50 years of age, and other requirements), reduced by contributions made to a Traditional IRA

Roth IRA contribution	MAGI — Single Filing Status	MAGI — Married Filing Jointly
Full contribution	Less than $105,000	Less than $167,000
Partial contribution	$105,000, but less than $120,000	$167,000, but less than $177,000
No contribution	$120,000 or more	$177,000 or more

Conversions

- From any type of tax-deferred account, such as:
  - Traditional IRA
  - SEP IRA
  - SIMPLE IRA (outside two-year period)
  - 401(k)
  - 403(b)
  - 457(b)
  - Profit-sharing plans

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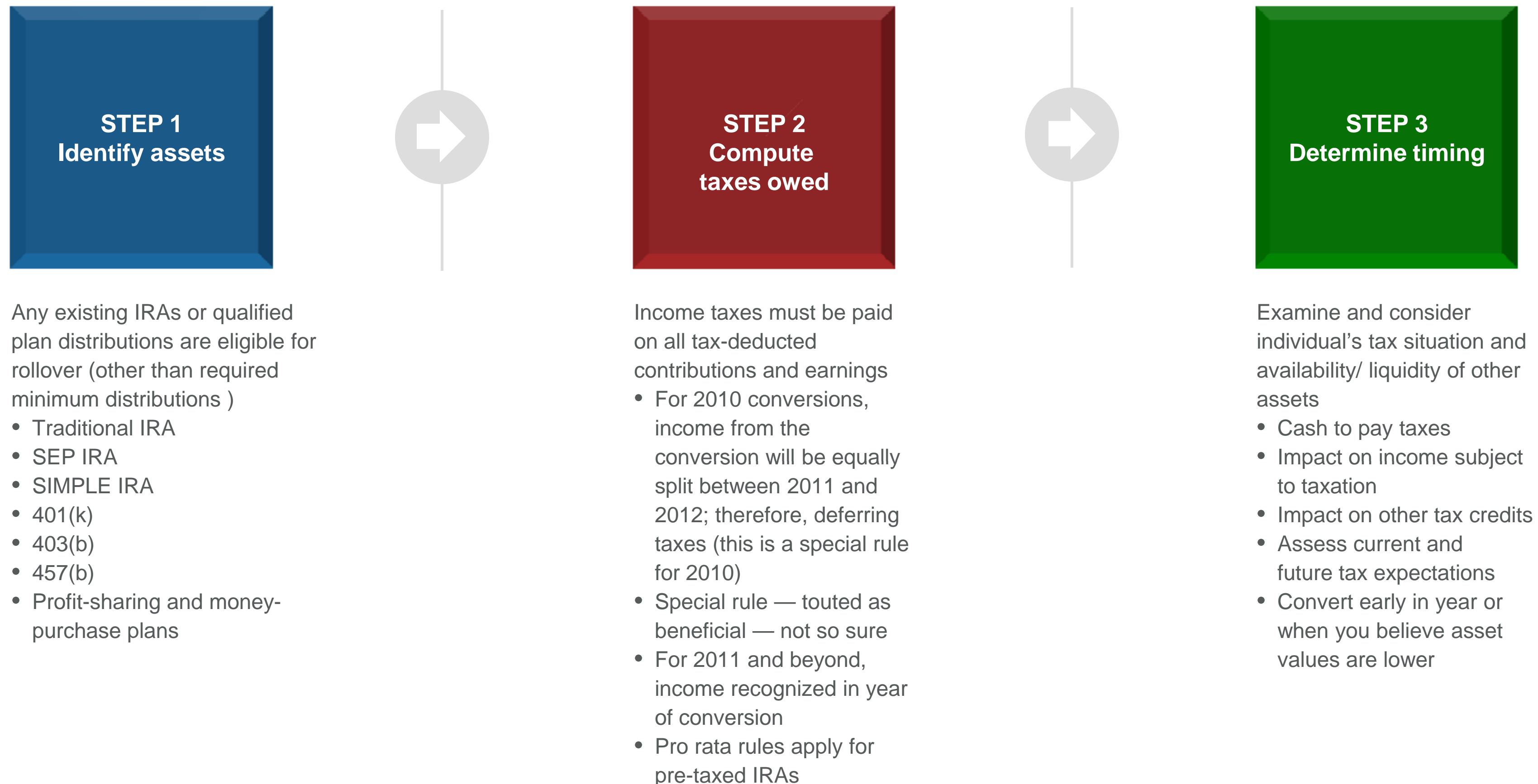
Roth IRA fundamentals — How does a Roth IRA conversion work?



STEP 1 — Identify assets

Any existing IRAs or qualified plan distributions are eligible for rollover (other than required minimum distributions)

- Traditional IRA
- SEP IRA
- SIMPLE IRA
- 401(k)
- 403(b)
- 457(b)
- Profit-sharing and money-purchase plans

STEP 2 — Compute taxes owed

Income taxes must be paid on all tax-deducted contributions and earnings

- For 2010 conversions, income from the conversion will be equally split between 2011 and 2012; therefore, deferring taxes (this is a special rule for 2010)
- Special rule — touted as beneficial — not so sure
- For 2011 and beyond, income recognized in year of conversion
- Pro rata rules apply for pre-taxed IRAs

STEP 3 — Determine timing

Examine and consider individual's tax situation and availability/ liquidity of other assets

- Cash to pay taxes
- Impact on income subject to taxation
- Impact on other tax credits
- Assess current and future tax expectations
- Convert early in year or when you believe asset values are lower

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Roth IRA fundamentals — income recognition rules

A Roth conversion is simply a transfer of a Traditional IRA to a Roth IRA.

2010 (Special Rule) Roth conversion rules	2011 and beyond Roth conversion rules
• No MAGI limits • Two options for payment of taxes: – Income can be evenly split between 2011 and 2012 (default rule) – Income recognized in 2010 (opt out of the default rule) **Issue:** Does deferral make sense?	• No MAGI limits • Income recognized in year of conversion

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Roth IRA fundamentals — 2010 — Defer or opt out?

Conventional Wisdom — "Deferral of Income"

Not conventional, but wise:

The example at right illustrates why conventional wisdom does not make sense in certain circumstances.

Example

Facts

Sue has a Traditional IRA valued at $1 million on January 5, 2010, the day she converts her Traditional IRA to a Roth IRA.

Income tax rates for 2010, 2011 and 2012 are as follows:

Year	Tax Rate
2010	35%
2011	40%
2012	40%

Results

If Sue defers, she pays total tax of $400,000 ($1 million multiplied by 40%), over a period of two years (April 15, 2012, and April 15, 2013).

If Sue opts out of deferral, she pays a total tax of $350,000 in one year (by April 15, 2011).

Note: An after-tax return of 9.5% is necessary to consider paying at the 40% rate (instead of the 35% rate). So, does conventional wisdom make sense?

This is a hypothetical example meant for illustrative purposes only

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Roth IRA fundamentals — Important dates

In order to spread the tax liability of a Roth conversion over two years, here are some important dates to remember:

January 1, 2010	The first day that conversions can take place
December 31, 2010	The last day that conversions can be enacted to take advantage of favorable tax rules
April 15, 2011	100% of conversion tax if non-deferral is elected
October 15, 2011	Last day to recharacterize 2010 conversions (includes extensions)
April 15, 2012	50% of the resulting tax liability will be due
April 15, 2013	Remaining 50% of conversion tax liability due

Roth IRA fundamentals — Applying pro rata rules

Clients not required to convert entire balance of pre-tax assets.

- Partial conversions are subject to additional regulation, IRC section 408(d)(2).
- Clients cannot isolate after-tax assets to avoid income tax liability.[1]

Example

John has two IRAs:

$80,000 in a Traditional IRA (all pre-tax)

$20,000 in a non-deductible IRA (as to 50%)
(composed of a $10,000 after-tax contribution and $10,000 of subsequent pre-tax earnings)

Of his aggregate $100,000:

$90,000 is pre-tax assets

$10,000 is after-tax assets

- 90% of whatever John converts to a Roth IRA will be considered pre-tax assets and is considered part of his taxable income.
- If he converts $50,000, then $45,000 will be subject to tax.

This is a hypothetical example meant for illustrative purposes only

[1] Except in the case of rolling pre-tax assets into an employer-sponsored plan leaving only after tax assets in an IRA which can then be converted.

Roth IRA fundamentals — Who are the players?

Participants	Beneficiaries
The original owners of the IRA (those who converted or contributed to the Roth IRA — may include spouses, see below)	Those who inherit the Roth IRA from either the Participant or another beneficiary
• No required minimum distributions during life	**Spouse** • Rollover — treated like a participant (normal situation) • Non-rollover election — treated like a beneficiary (not usual) **Non-spouse** • In general — minimum distributions based upon life expectancy when inherited from Participant • If inherited from another beneficiary — continuing life expectancy from beneficiary

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Roth IRA fundamentals — Summary

- On January 1, 2010, the new rules take effect
  - No income limitations
  - No marital status limitations
- Cost of conversion — pay the "conversion tax"
  - 2010 special rule
    - Default Rule – Defer income to 2011 and 2012
    - Opt out – Recognize income in 2010
  - After 2010 — recognize income as you convert
- Non-deductible contributions within the IRAs — pro rata inclusion in income (cannot pick and choose)
- Who are the players?
  - Participants — original owners
  - Beneficiaries — those who inherit from
    - Original owners
    - Other beneficiaries
- Who should consider conversion?

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Analyzing the Roth IRA conversion — Understanding the overall analysis

Overview

Look at all assets over long-term horizon

- IRA
- Non-IRA assets

Look over horizon of time that it takes the Roth IRA to be fully distributed

- From date of conversion
- Through death of participant
- Through death of beneficiary

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Analyzing the Roth IRA conversion — Understanding the overall analysis

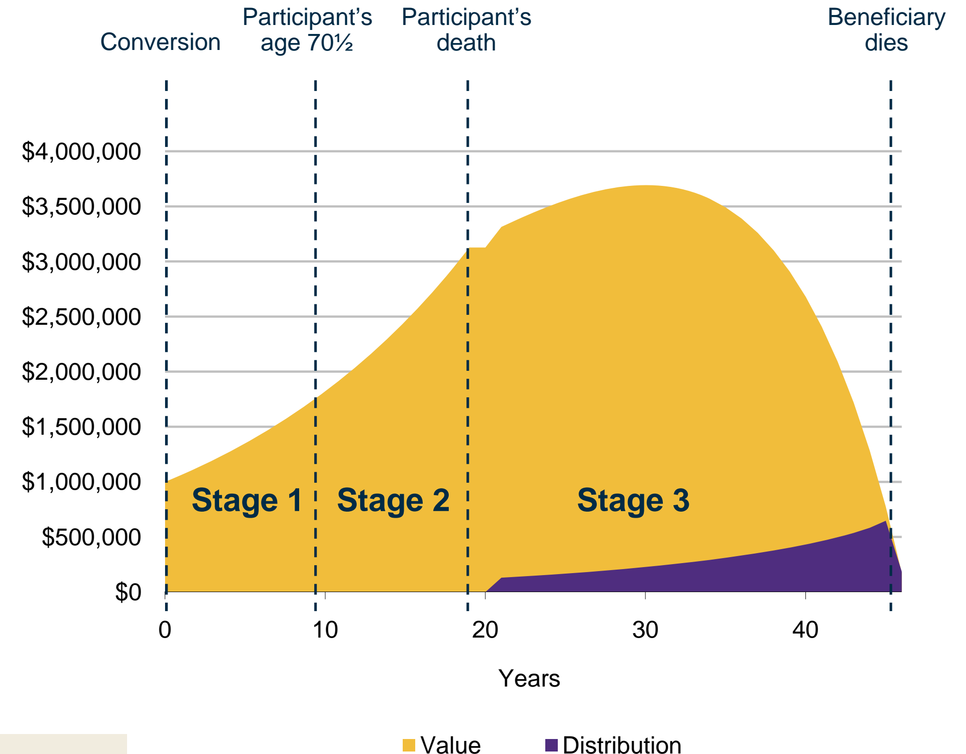
Why look at all of the assets?

- Because best result is if you pay income tax on conversion outside of Roth IRA (need to look at effect)
- Because best result is if you pay estate tax with non-IRA assets
- Thus, impact on non-IRA assets is important, if not critical

What is the horizon of time?

- From date of conversion through last possible day that one can stretch the withdrawal of the Roth IRA
- Time horizon is broken into three stages:

STAGE 1	Date of conversion to age 70½
STAGE 2	Age 70½ to death of participant
STAGE 3	Death of participant to death of beneficiary



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Analyzing the Roth IRA conversion —
How do you analyze whether conversion makes sense?

Conversion versus non-conversion

Do the math and run the numbers where you project the net assets at the various stages (Stage 1, Stage 2 and Stage 3) whether one has "converted," and compare to if one had "not converted."

Big picture

Stage 1 — moderately beneficial

Stage 2 — benefit starts to turn favorable

Stage 3 — benefit is evident

(subject to reasonable assumptions)

Bigger picture

Must take a holistic approach over three-stage horizon

If not done … missed the mark, possible inaccurate results, could be absolutely wrong

Analyzing the Roth IRA conversion — Which factors are relevant?

More Favorable	Less Favorable
If future projected marginal personal income tax rates will increase	If future projected marginal personal income tax rates will decrease
If the taxpayer has tax favorable situations in the year of conversion	Not necessarily a negative, if the taxpayer does not have tax favorable situations
If the taxpayer's non-IRA assets are used to pay the income tax due on conversion	If the taxpayer uses IRAs assets to pay the income tax due on conversion
If the taxpayer does not believe that he or she will need to withdraw Roth IRA assets during his or her lifetime	If the taxpayer anticipates withdrawing Roth IRA assets during his or her lifetime
If, upon death, the taxpayer will be subject to estate tax	If, upon death, the taxpayer will not be subject to estate tax

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Analyzing the Roth IRA conversion — Which factors are relevant?

More Favorable	Less Favorable
If the taxpayer plans to leave the IRA to non-charitable beneficiaries (such as family and other loved ones)	If the taxpayer plans to leave his or her IRA to charity
The longer the taxpayer lives after the conversion, the better the result	The shorter the taxpayer lives after conversion, the less beneficial the result
The younger the taxpayer, the more beneficial	The older you are, the less beneficial to your family
The younger your junior family members who inherit the IRA, the more beneficial	The older your junior family members who inherit the IRA, the less beneficial
If Federal and state taxing authorities make the tax laws the same or more favorable to conversion	If Federal and state taxing authorities make the tax laws the same or more favorable to conversion
If Federal and state taxing authorities make the tax laws more favorable to conversion	If Federal and state taxing authorities make the tax laws less favorable to conversion

Roth IRA conversion strategies

There are three Roth IRA conversion opportunities.

Strategy	Details
Lifetime conversion opportunities (Personal retirement income strategies)	• Beneficial to the participant during his or her lifetime • Tax diversification of retirement income and hedging against higher future taxes • Run the numbers for Stages 1 and 2
Legacy planning strategies	• Beneficial to the beneficiaries over their life expectancy • Pass along tax-free assets or reduce the taxable value of an estate • Run the numbers for Stage 3
Tactical conversion opportunities (Event and portfolio strategies)	• Special circumstances where conversion may be opportunistic (for example, take advantage of recent market decline, special tax circumstances or tax deductions)

Roth IRA conversion strategies — Lifetime conversion

Lifetime conversion opportunities

- Don't withdraw Roth IRA assets
  - At conversion
  - For lifestyle after conversion
- Withdrawal flexibility — if you need, you can withdraw tax-free
- Rising tax rates
  - Lower rates at conversion make it more beneficial
  - Don't forget state tax rates
- Enhanced deferral beyond age 70½
  - Fundamental difference between Traditional and Roth IRA is there are no required distributions for Roth IRAs, so they compound tax-free after reaching age 70½
- Asset location/allocation

Lifetime conversion opportunities (Personal retirement income strategies)	• Beneficial to the participant during his or her lifetime • Tax diversification of retirement income and hedging against higher future taxes • Run the numbers for Stages 1 and 2

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Roth IRA conversion strategies — Legacy conversion

Legacy conversion opportunities

- Growth during life — increases after death
- Interrelationship between the estate and income taxes gives an advantage to the Roth IRA
- If in a state where there are state death taxes, Roth conversion is more beneficial over a non-conversion
- Plan to pay IRA taxes with non-IRA assets — more beneficial for Roth conversions
- Asset location/allocation
- May be more beneficial from an asset protection perspective if beneficiary lives in a jurisdiction where IRAs are protected from creditors

Legacy Planning Strategies	
Legacy Planning Strategies	• Beneficial to the beneficiaries over their life expectancy • Pass along tax-free assets or reduce the taxable value of an estate • Run the numbers for Stage 3

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Roth IRA conversion strategies — Tactical conversion

Tactical conversion opportunities

- Charitable contribution carryovers
- Net operating losses
- Large itemized deductions
- Change of jobs or reduction of income
- Moving to a state with a state income/death tax

Tactical conversion opportunities (Event and portfolio strategies)	• Special circumstances where conversion may be opportunistic (for example, take advantage of recent market decline, special tax circumstances or tax deductions)

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Recharacterization of Roth IRA conversion

The “oops” provision

The participant can change his/her mind anytime before filing the income tax return for the year of conversion, thus, if the IRA is converted in 2010, the participant has up to the time of filing the 2010 Form 1040 (for example, at the latest October 15, 2011) to change his/her mind.

Payment of tax issue

- April 15 versus October 15
- Prepay versus run the risk

If the participant “recharacterizes,” he/she can go back again (convert to a Roth IRA), but may have a short wait period.

Recharacterization allows the participant to look at:

- Investment performance
- Where Congress is headed with taxes

Recharacterization of Roth IRA conversion — Example Part I

On January 5, 2010, Dan has $1,000,000 in IRA assets:

- $500,000 in equities
- $500,000 in bonds

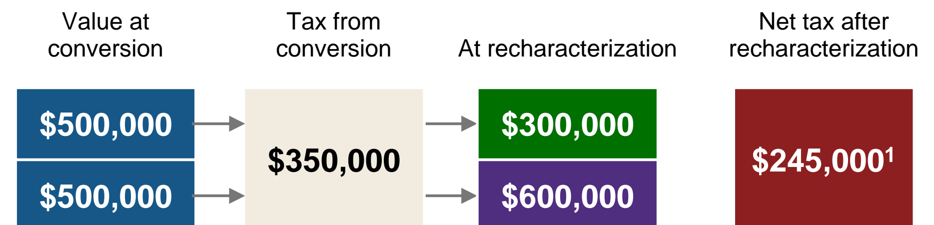
After eleven months, the assets are worth:

- $300,000 in equities
- $600,000 in bonds

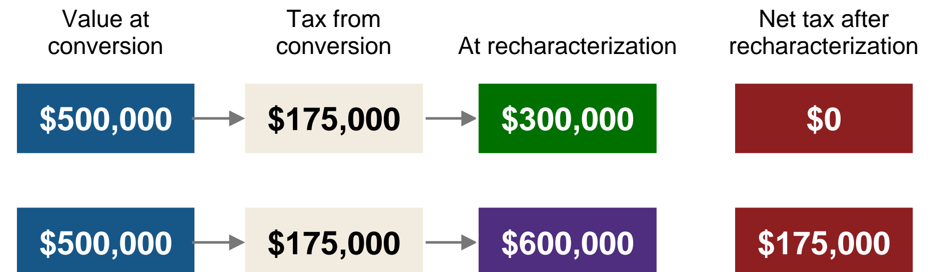
By segregating the assets into two IRAs before conversion, Dan can comply with IRS rules governing conversion.

By recharacterizing, Dan's effective tax rate (based on recharacterization values for the single IRA account) is 39% ($245,000/$630,000[2]), whereas the effective tax rate for the separate IRA approach is 29% ($175,000/$600,000).

Without IRA segregation (one account)



With IRA segregation (two accounts)



Converted to Roth IRA   Recharacterized Assets

[1] The conversion amount will be $1,000,000 less $300,000 = $700,000 * 35% = $245,000.

[2] Pursuant to Treas. Reg. § 1.408-5A Q&A 2, the amount that has to be distributed from the single Roth IRA on recharacterization is $270,000. Thus, the value of assets is $630,000 ($900,000 - $270,000).

Assumptions:

Income from conversion places Dan in the 35% tax bracket.

Assets that are recharacterized all fall within the 35% tax bracket.

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Recharacterization of Roth IRA conversion — Example Part II

On Jan. 6, 2011, Dan converts the recharacterized amount:

- 1 IRA — $270,000
- 2 IRAs — $300,000

In this case, by using two IRA accounts instead of a single IRA account, Dan saves $59,500 in taxes.

Dan's effective tax rate for a single Roth IRA account is 38% ($339,500/$900,000), whereas the effective tax rate for two Roth IRA accounts is 31% ($280,000/$900,000)

Reconversion after recharacterization

	Value at conversion	Tax from conversion
1 IRA	$270,000	$94,500
2 IRAs	$300,000	$105,000

Total income tax comparison

	One Roth IRA account income tax	Two Roth IRA accounts income tax
2010 Tax	$245,000	$175,000
2011 Tax	$94,500	$105,000
Total Tax	$339,500	$280,000

Converted to Roth IRA Recharacterized Assets

Assumptions:

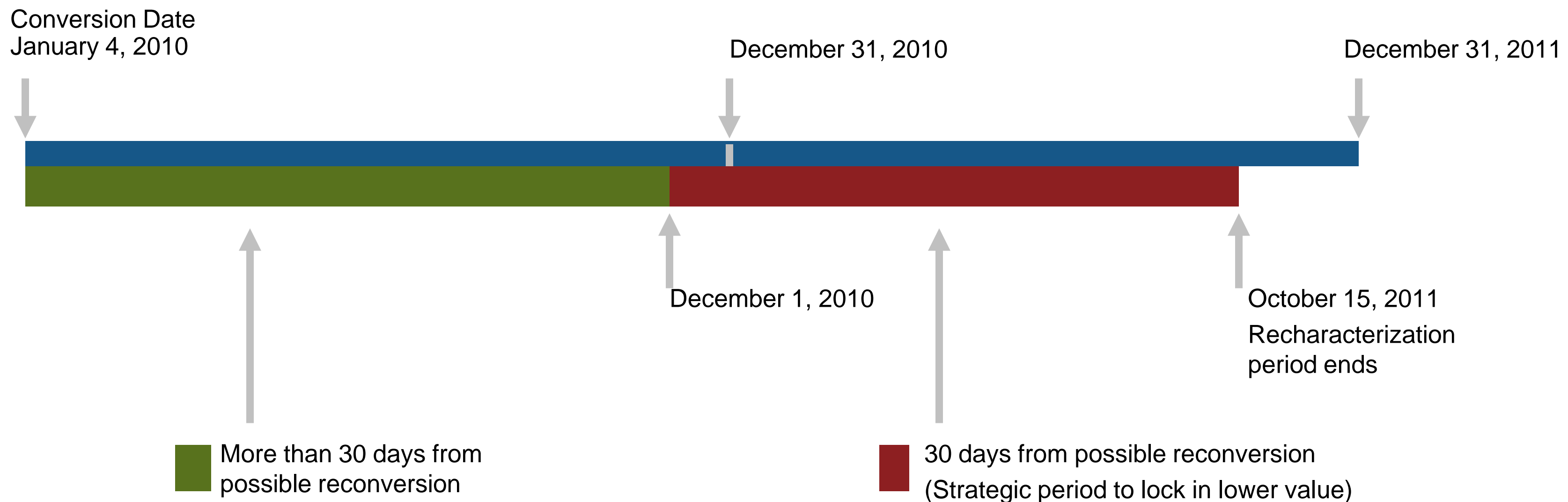
Income from conversion places Dan in the 35% tax bracket.

Assets that are recharacterized all fall within the 35% tax bracket
This is a hypothetical example meant for illustrative purposes only.

Strategies applicable to reconversion after recharacterization

Planning for reconversion after recharacterization

Look for the drops in value when recharacterization is possible, particularly when reconversion is possible 30 days thereafter (to lock in lower values for income tax purposes). Of course, consider other factors such as possible higher rates in the reconversion tax year and the impact of deductions and credits.



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Strategies applicable to reconversion (continued)

Planning for reconversion after recharacterization

After a recharacterization, the Traditional IRA may be converted back into a Roth IRA, but the reconversion of that amount cannot take place until:

- The beginning of the taxable year following the taxable year in which the amount was converted into a Roth IRA ("Date #1") or, if later,
- 30 days after the recharacterization ("Date #2"). Treas. Reg. §1.408A-5, A-9(a)(1).

Example

Mary converts her Traditional IRA to a Roth IRA on January 4, 2010. If Mary recharacterizes the Roth IRA on the following dates, she may reconvert that amount as seen in the second table:

Conversion Date	Recharacterization Date	Date #1	Date #2	Reconversion possible on or after
January 4, 2010	May 31, 2010	January 1, 2011	June 30, 2010	January 1, 2011
January 4, 2010	December 31, 2010	January 1, 2011	January 30, 2011	January 30, 2011
January 4, 2010	August 31, 2011	N/A	September 30, 2011	September 30, 2011

Reconversion Date	Recharacterization Date	Date #1	Date #2	Reconversion possible on or after
October 1, 2011	October 31, 2011	Jan. 1, 2012	November 30, 2011	January 1, 2012

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Recharacterization of Roth IRA conversion — Multiple Roth IRA accounts

For this example, assume that John has a Traditional IRA valued at $1 million that he converts to a Roth IRA in January 2010.

- If John only had one IRA, then at the time for making the decision to recharacterize, he would likely not recharacterize because the value has increased.
- However, if before conversion, John segregated the Traditional IRA into four separate Traditional IRAs (one IRA for each asset class), then he converts the four accounts; he could then recharacterize the Small Cap and International IRAs (that is, the ones that lost value), and simply keep the Large Cap and Mid Cap.
- Recall that the conversion tax is based on the value at the time of conversion. Thus, the tax on the Large Cap and Mid Cap IRAs will be based on the $250,000 values. Assuming a tax rate of 35%, the tax would be $175,000 ($500,000 x 35%), even though a year later, the value of the assets is worth $850,000.
- Later (generally 30 days), John could reconvert the Small Cap and International funds (at their lower value).
- Overall planning strategy — Look at composition of assets in IRA before conversion, and separate into separate accounts to take advantage of market fluctuations, if any.

This is a hypothetical example meant for illustrative purposes only.

In January 2010 John's Roth IRA assets are invested as follows:

Asset Class	Value
Large Cap	$250,000
Mid Cap	250,000
Small Cap	250,000
International	250,000
Total	**$1,000,000**

In April 2011, the value of the Roth IRA increased to $1.1 million, but, the values of the different asset classes have changed, as follows:

Asset Class	Value
Large Cap	$400,000
Mid Cap	450,000
Small Cap	100,000
International	150,000
Total	**$1,100,000**

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Planning a Roth IRA conversion — Opportunities

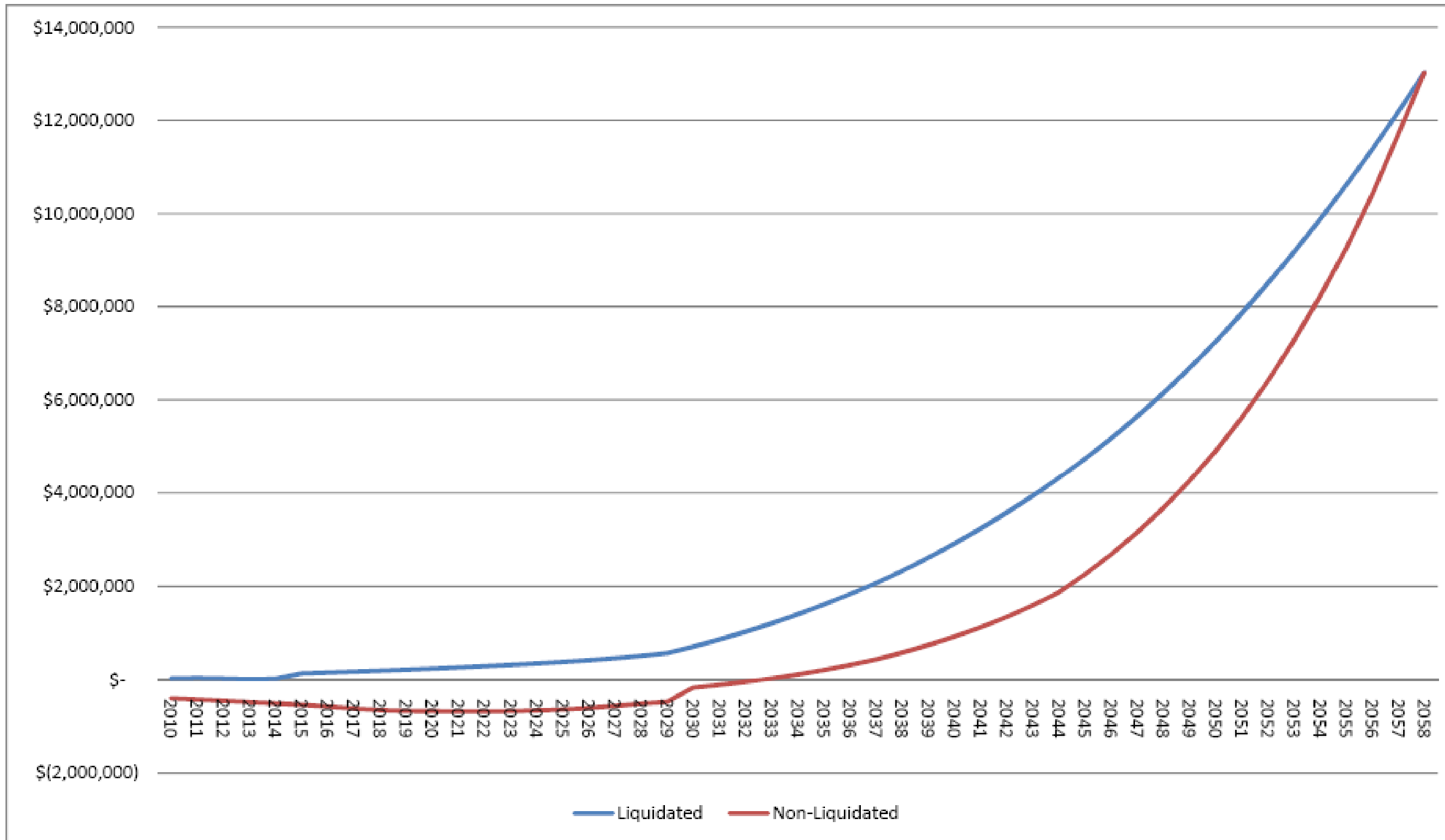
- Convert when investments are down (in value)
  - Market dip
  - Beginning of year
- Deferral of 2010 “conversion tax” may NOT be beneficial
- Dealing with Traditional IRAs with basis
  - Non-deductible contributions create basis
  - Pro rata utilization of basis
  - Planning around the basis issue (if still employed, if employer has a plan, if eligible to be in a plan, and if in the plan)
- Convert to separate/multiple Roth IRAs (diversification)
- Partial conversions
- Asset location/allocation
- Recharacterization — unwinding, decline of asset values

Roth Conversion Analysis – Sample Output

Roth Conversion Analysis

John and Jane Client

Liquidated versus Non-Liquidated Benefit / (Detriment) of Conversion to Roth IRA



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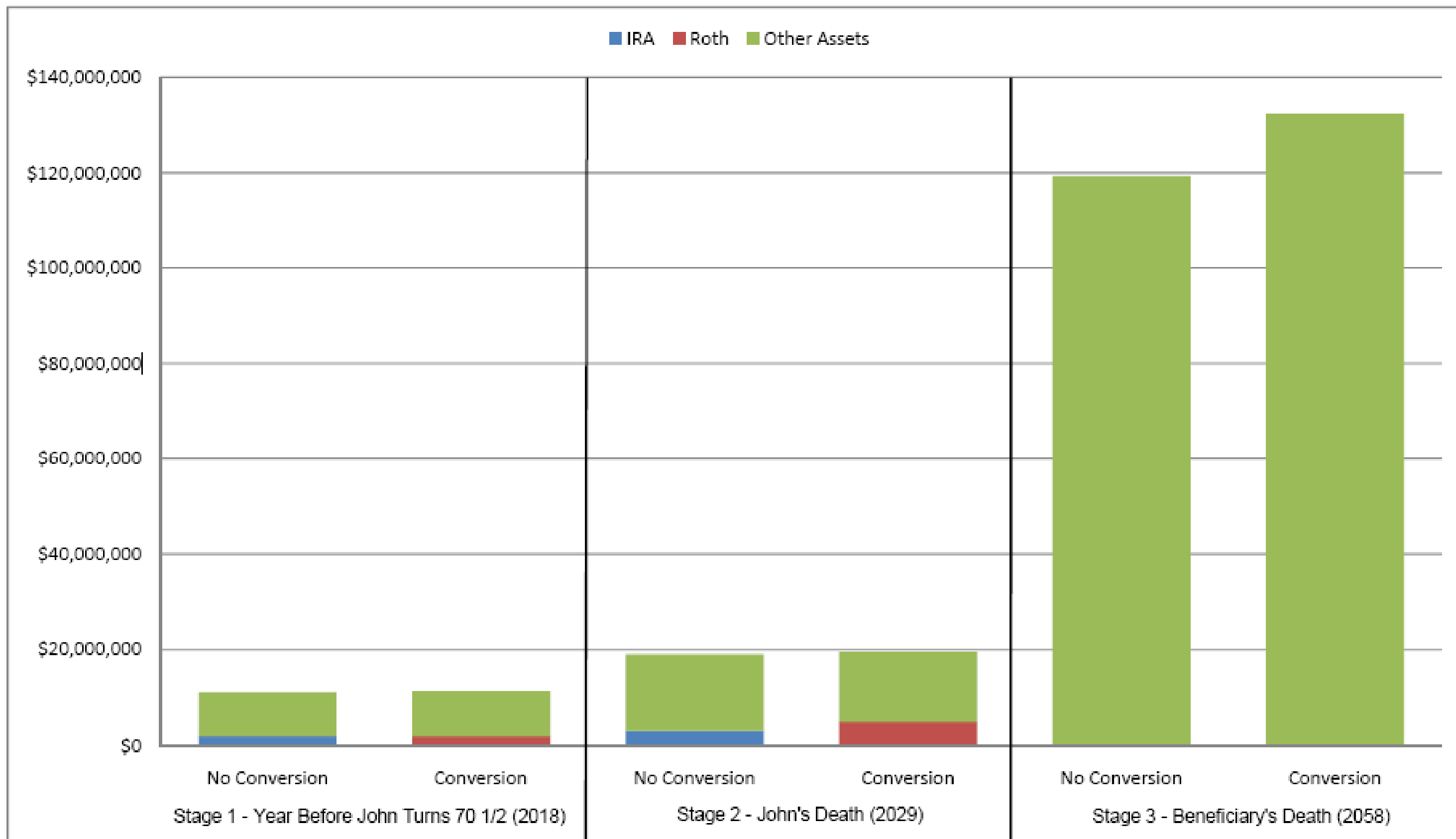
Roth Conversion Analysis – Sample Output



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Roth Conversion Analysis – Sample Output

Roth Conversion Analysis

John and Jane Client

Comparison of **Liquidated** Values at Three Different Stages (No Conversion versus Conversion)

Stage 1 - Year Before John Turns 70 1/2 (2018)	No Conversion	Conversion
Estimated Value of Traditional IRA	$2,078,460	$0
Estimated Value of Roth IRA	$0	$2,078,460
Estimated Value of Non - IRA assets	$9,157,113	$9,349,056
Total Value of Assets	$11,235,572	$11,427,516
	Benefit / (Detriment) of Conversion	$191,943

Stage 2 - John's Death (2029)	No Conversion	Conversion
Estimated Value of Traditional IRA	$3,216,037	$0
Estimated Value of Roth IRA	$0	$5,082,676
Estimated Value of Non - IRA assets	$15,794,643	$14,492,418
Total Value of Assets	$19,010,680	$19,575,094
	Benefit / (Detriment) of Conversion	$564,415

Stage 3 - Beneficiary's Death (2058)	No Conversion	Conversion
Estimated Value of Traditional IRA	$0	$0
Estimated Value of Roth IRA	$0	$0
Estimated Value of Non - IRA assets	$119,346,747	$132,375,022
Total Value of Assets	$119,346,747	$132,375,022
	Benefit / (Detriment) of Conversion	$13,028,275

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Planning a Roth IRA conversion — Legacy conversion example #1

Assume that Caleb has $10,000,000 in assets.

- $1,000,000 in an IRA (pre-tax)
- $9,000,000 in other assets (taxable)

At Caleb's death, conversion increased the estate passing to Mitch by roughly $972,000.

At Mitch's death, conversion increased the estate passing to Mitch's descendants by roughly $22,482,000.

STAGE 1 — Caleb reaches age 70½	TRAD IRA	ROTH IRA
Estimated Value of IRA at 70½ (net of taxes)	$2,254,000	$2,254,000
Estimated Value of Non-IRA assets (net of all estate taxes)	9,477,000	9,692,000
Total Value all Assets (net of taxes)	$11,731,000	$11,946,000
Difference	$214,000	

STAGE 2 — Caleb's date of death	TRAD IRA	ROTH IRA
Estimated Value of IRA at death (net of taxes)	$3,845,000	$7,632,000
Estimated Value of Non-IRA assets (net of all estate taxes)	20,842,000	18,027,000
Total Value all Assets (net of taxes)	$24,687,000	25,659,000
Difference	$972,000	

STAGE 3 — At Beneficiary's death	TRAD IRA	ROTH IRA
Estimated Value of IRA at death (net of taxes)	0	0
Estimated Value of Non-IRA assets (net of all estate taxes)	164,562,000	187,044,000
Total Value all Assets (net of taxes)	$164,562,000	187,044,000
Difference	$22,482,000	

Assumptions:

Caleb converts his entire Traditional IRA in 2010 and elects to pay income tax in 2010.

Federal ordinary income tax rates will be 35%; Capital gain and dividend income tax rates will be 15%, but will increase in accordance with the sunset provisions of EGTRRA (2001) and JGTRRA (2003). State ordinary income tax (including capital gain) rates will be remain at 8%.

The asset allocation is 22% taxable bonds, 3% tax exempt bonds, 48% in stocks, 27% other .

Caleb will not make any withdrawals from his Roth IRA during his life.

Hypothetical average pre-tax return is 8.44%; hypothetical turnover rate is 41.5% per year

The estate tax exemption is $3.5 million (with a top Federal rate of 45%), which Caleb has not used during his lifetime, and will not use for the balance of his life. Caleb resides in an state that imposes an estate tax. State death taxes are deductible.

The estate tax on the Roth IRA will be paid by the non-IRA assets.

Caleb is unmarried and leaves all of his estate to his only son, Mitch. Caleb was born on February 2, 1950, and is expected to die at the end of 2034. Mitch was born on April 27, 1980 , and is expected to die at the end of 2064.

Mitch withdraws the minimum amount from the Roth IRA during his anticipated life expectancy.

This is a hypothetical example meant for illustrative purposes only.

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Planning a Roth IRA conversion — Legacy conversion example #2, no state income or estate taxes

Assume that Caleb has $10,000,000 in assets.

- $1,000,000 in an IRA (pre-tax)
- $9,000,000 in other assets (taxable)

Assumes that conversion taxes are paid from the Roth IRA

At Caleb's death, conversion increased the estate passing to Mitch by roughly $214,000.

At Mitch's death, conversion increased the estate passing to Mitch's descendants by roughly $10,099,000.

STAGE 1 — Caleb reaches age 70½	TRAD IRA	ROTH IRA
Estimated Value of IRA at 70½ (net of taxes)	$2,254,000	$1,419,000
Estimated Value of Non-IRA assets (net of all estate taxes)	10,859,000	11,725,000
Total Value all Assets (net of taxes)	$13,113,000	$13,144,000
Difference	$31,000	
STAGE 2 — Caleb's date of death	**TRAD IRA**	**ROTH IRA**
Estimated Value of IRA at death (net of taxes)	$3,845,000	$4,803,000
Estimated Value of Non-IRA assets (net of all estate taxes)	27,067,000	26,323,000
Total Value all Assets (net of taxes)	$30,912,000	31,126,000
Difference	$214,000	
STAGE 3 — At Beneficiary's death	**TRAD IRA**	**ROTH IRA**
Estimated Value of IRA at death (net of taxes)	$0	$0
Estimated Value of Non-IRA assets (net of all estate taxes)	233,615,000	243,714,000
Total Value all Assets (net of taxes)	$233,615,000	243,174,000
Difference	$10,099,000	

Assumptions:

Same as Example 1, except that 4 years after conversion, Caleb moves to a state with no income tax and no death tax (such as Florida). And Mitch also lives in that state for the rest of his life. This example also assumes that the Roth IRA will pay all income taxes recognized upon conversion.

This is a hypothetical example meant for illustrative purposes only.