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Advanced Planning for IRAs

Presented by:
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Why Retirement Distribution Planning is Important

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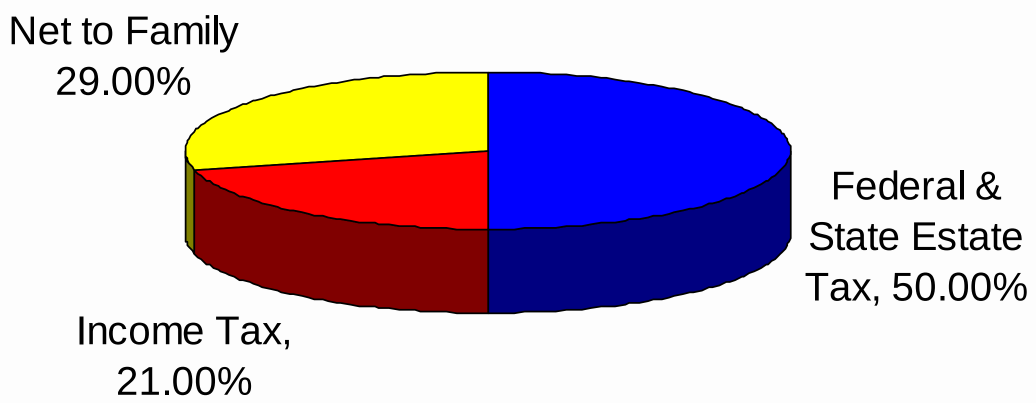
Potential tax exposure to IRA without planning



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Why Retirement Distribution Planning is Important

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Perhaps one of the most important decisions a retiree must make is to determine from which retirement assets to withdraw funds to meet everyday living expenses

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Qualified Retirement Account vs. Non-Qualified Account Distributions

Decision factors

- Size of accounts
- Investment mix / performance
- Marginal income tax bracket
- Time horizon

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OPTION 1 - Withdraw 100% From IRA

		2007	2008	2009	2010	2011
Husband's Age		64	65	66	67	68
Wife's Age		59	60	61	62	63
ASSETS		**2007**	**2008**	**2009**	**2010**	**2011**
IRA						
Beginning Balance		$ 1,300,000	$ 1,216,000	$ 1,127,620	$ 1,034,553	$ 936,472
Income	7.00%	91,000	85,120	78,933	72,419	65,553
Distributions		(175,000)	(173,500)	(172,000)	(170,500)	(169,000)
Ending Balance		$ 1,216,000	$ 1,127,620	$ 1,034,553	$ 936,472	$ 833,025
Brokerage Account						
Beginning Balance		$ 1,400,000	$ 1,474,010	$ 1,551,707	$ 1,633,325	$ 1,719,113
Yield (Interest & Dividends)	2.00%	28,000	29,480	31,034	32,667	34,382
Growth	5.00%	70,000	73,701	77,585	81,666	85,956
Subtotal		$ 1,498,000	$ 1,577,191	$ 1,660,327	$ 1,747,658	$ 1,839,451
Yield Distributed		(28,000)	(29,480)	(31,034)	(32,667)	(34,382)
Stock Sales		-	-	-	-	-
Net Cash Flow Reinvested		4,010	3,997	4,033	4,122	4,266
Ending Balance		$ 1,474,010	$ 1,551,707	$ 1,633,325	$ 1,719,113	$ 1,809,335
Total Assets		**$ 2,690,010**	**$ 2,679,327**	**$ 2,667,879**	**$ 2,655,585**	**$ 2,642,360**
CASH FLOW		**2007**	**2008**	**2009**	**2010**	**2011**
IRA Distribution		$ 175,000	$ 173,500	$ 172,000	$ 170,500	$ 169,000
Interest & Dividends		28,000	29,480	31,034	32,667	34,382
Stock Sales Proceeds		-	-	-	-	-
Subtotal		$ 203,000	$ 202,980	$ 203,034	$ 203,167	$ 203,382
Less: Income Tax		(66,990)	(66,983)	(67,001)	(67,045)	(67,116)
Less: Living Expenses		(132,000)	(132,000)	(132,000)	(132,000)	(132,000)
Net Cash Flow		**$ 4,010**	**$ 3,997**	**$ 4,033**	**$ 4,122**	**$ 4,266**

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OPTION 2 - Withdraw 100% From Brokerage Account

Husband's Age		64	65	66	67	68
Wife's Age		59	60	61	62	63
ASSETS		**2007**	**2008**	**2009**	**2010**	**2011**
IRA						
Beginning Balance		$ 1,300,000	$ 1,391,000	$ 1,488,370	$ 1,592,556	$ 1,704,035
Income	7.00%	91,000	97,370	104,186	111,479	119,282
Distributions		-	-	-	-	-
Ending Balance		$ 1,391,000	$ 1,488,370	$ 1,592,556	$ 1,704,035	$ 1,823,317
Brokerage Account						
Beginning Balance		$ 1,400,000	$ 1,344,910	$ 1,285,459	$ 1,221,390	$ 1,152,431
Yield (Interest & Dividends)	2.00%	28,000	26,898	25,709	24,428	23,049
Growth	5.00%	70,000	67,245	64,273	61,070	57,622
Subtotal		$ 1,498,000	$ 1,439,053	$ 1,375,441	$ 1,306,887	$ 1,233,101
Yield Disributed		(28,000)	(26,898)	(25,709)	(24,428)	(23,049)
Stock Sales		(130,000)	(131,500)	(133,000)	(134,500)	(136,000)
Net Cash Flow Reinvested		4,910	4,803	4,659	4,472	4,238
Ending Balance		$ 1,344,910	$ 1,285,459	$ 1,221,390	$ 1,152,431	$ 1,078,291
Total Assets		**$ 2,735,910**	**$ 2,773,829**	**$ 2,813,946**	**$ 2,856,466**	**$ 2,901,608**
CASH FLOW		**2007**	**2008**	**2009**	**2010**	**2011**
IRA Distribution		$ -	$ -	$ -	$ -	$ -
Interest & Dividends		28,000	26,898	25,709	24,428	23,049
Stock Sales Proceeds		130,000	131,500	133,000	134,500	136,000
Subtotal		$ 158,000	$ 158,398	$ 158,709	$ 158,928	$ 159,049
Less: Income Tax		(21,090)	(21,595)	(22,051)	(22,456)	(22,810)
Less: Living Expenses		(132,000)	(132,000)	(132,000)	(132,000)	(132,000)
Net Cash Flow		**$ 4,910**	**$ 4,803**	**$ 4,659**	**$ 4,472**	**$ 4,238**

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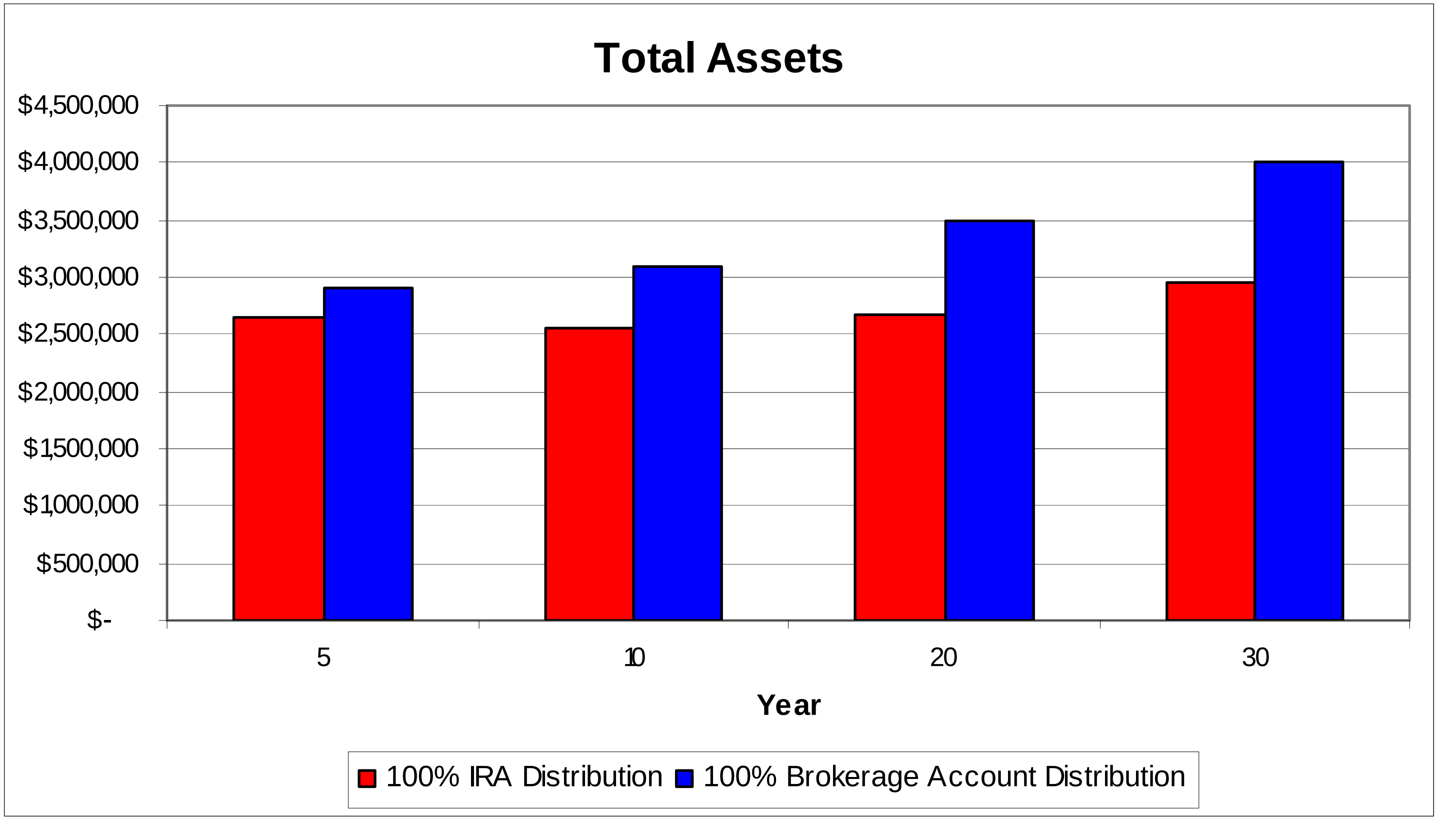

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Foundation Concepts

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- Wills control probate assets

- Trusts control trust assets

- IRAs and qualified retirement plans are controlled by beneficiary designation form or default provisions of contract

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Foundation Concepts

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- IRAs are not taxed until distributed
- Distributions must begin no later than one's Required Beginning Date (RBD)
- IRA Elections are required after death
- Roth IRA conversions must be analyzed
- Use of life insurance to prolong distributions

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Taxation of IRA Distributions

- To the extent that an IRA has only deductible contributions (plus income and growth), 100% of each IRA distribution will be subject to income tax in the year of distribution
- To the extent that an IRA has non-deductible contributions, a portion of each IRA distribution will not be subject to tax

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Taxation of IRA Distributions

- When an IRA has non-deductible contributions, a portion of each IRA distribution will be a return of non-taxable “basis” to the IRA owner
- In determining the non-taxable portion of an IRA distribution, all IRAs and IRA distributions during the year (including outstanding rollovers) must be combined for apportioning “basis”
  - See IRS Form 86060

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Taxation of IRA Distributions

“Basis” Apportionment Formula - Example

Current year non-deductible IRA contributions	$	1,000
Prior year non-deductible IRA contributions		6,000
Total non-deductible IRA contributions	$	7,000
FMV of all IRAs	$	320,000
Outstanding rollovers		20,000
Distributions		10,000
Roth IRA conversions		-
Total value of IRAs, distributions and Roth IRA conversions	$	350,000
"Basis" apportionment formula		**0.0200**
Gross IRA distribution	$	10,000
Non-taxable portion		(200)
Taxable IRA distribution	$	9,800

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- Generally, April 1 of the year following the year the owner turns age 70½ is the RBD
- Once at RBD, required minimum distributions (RMD) must begin

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Required Beginning Date - Example

Example-Birthdate is October 18, 1937

- Turn age 70 on October 18, 2007
- Turn age 70½ on April 18, 2008
- RBD -- April 1, 2009

Example-Birthdate is April 18, 1937

- Turn age 70 on April 18, 2007
- Turn age 70½ on October 18, 2007
- RBD -- April 1, 2008

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- RMDs are calculated based upon prior year ending account balance divided by life expectancy factor

$$\text{RMD} = \frac{\text{Prior Year 12/31 Balance}}{\text{Life Expectancy Factor}}$$

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Life expectancy tables

- Uniform Lifetime Table
- Single Life Table
- Joint and Last Survivor Table
  - Available where the spouse is the sole beneficiary and is greater than 10 years younger than the account owner

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Uniform Lifetime Table

Age	Divisor	Age	Divisor	Age	Divisor
70	27.4	86	14.1	102	5.5
71	26.5	87	13.4	103	5.2
72	25.6	88	12.7	104	4.9
73	24.7	89	12.0	105	4.5
74	23.8	90	11.4	106	4.2
75	22.9	91	10.8	107	3.9
76	22.0	92	10.2	108	3.7
77	21.2	93	9.6	109	3.4
78	20.3	94	9.1	110	3.1
79	19.5	95	8.6	111	2.9
80	18.7	96	8.1	112	2.6
81	17.9	97	7.6	113	2.4
82	17.1	98	7.1	114	2.1
83	16.3	99	6.7	115 and older	1.9
84	15.5	100	6.3		
85	14.8	101	5.9		

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Single Life Table

Age	Divisor	Age	Divisor	Age	Divisor	Age	Divisor	Age	Divisor	Age	Divisor	Age	Divisor
0	82.4	16	66.9	32	51.4	48	36.0	64	21.8	80	10.2	96	3.8
1	81.6	17	66.0	33	50.4	49	35.1	65	21.0	81	9.7	97	3.6
2	80.6	18	65.0	34	49.4	50	34.2	66	20.2	82	9.1	98	3.4
3	79.7	19	64.0	35	48.5	51	33.3	67	19.4	83	8.6	99	3.1
4	78.7	20	63.0	36	47.5	52	32.3	68	18.6	84	8.1	100	2.9
5	77.7	21	62.1	37	46.5	53	31.4	69	17.8	85	7.6	101	2.7
6	76.7	22	61.1	38	45.6	54	30.5	70	17.0	86	7.1	102	2.5
7	75.8	23	60.1	39	44.6	55	29.6	71	16.3	87	6.7	103	2.3
8	74.8	24	59.1	40	43.6	56	28.7	72	15.5	88	6.3	104	2.1
9	73.8	25	58.2	41	42.7	57	27.9	73	14.8	89	5.9	105	1.9
10	72.8	26	57.2	42	41.7	58	27.0	74	14.1	90	5.5	106	1.7
11	71.8	27	56.2	43	40.7	59	26.1	75	13.4	91	5.2	107	1.5
12	70.8	28	55.3	44	39.8	60	25.2	76	12.7	92	4.9	108	1.4
13	69.9	29	54.3	45	38.8	61	24.4	77	12.1	93	4.6	109	1.2
14	68.9	30	53.3	46	37.9	62	23.5	78	11.4	94	4.3	110	1.1
15	67.9	31	52.4	47	37.0	63	22.7	79	10.8	95	4.1	111	1.0

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Post-death critical questions:

- Did the participant die before his RBD?
- Is the spouse the sole beneficiary?
- Are there multiple beneficiaries?
- Are all beneficiaries “designated beneficiaries”?
- What does the IRA/qualified plan allow?

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Permissible “designated beneficiaries”:

- Individuals
  - ✓ Spouse
  - ✓ Child
  - ✓ Grandchild
  - ✓ Parent
  - ✓ Brother/sister
  - ✓ Niece/Nephew
  - ✓ Neighbor
- Certain Trusts

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Death before age 70½

- Five-year rule
- Exceptions to the five-year rule
- Delayed distributions – spousal beneficiary
- Spousal beneficiary – special trust problem

Death after age 70½

- Life expectancy distributions if you have a designated beneficiary
- Distributions must begin by December 31st of the year after death
- Year of death distribution – life expectancy of IRA owner

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	Death Before Required Beginning Date	Death On or After Required Beginning Date
Designated Beneficiary	*Life Expectancy Rule*	*Life Expectancy Rule*
Non-Designated Beneficiary	*Five-Year Rule*	*"Ghost" Life Expectancy Rule*

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Critical dates:

September 30 of the year following the year of death

- Date at which the beneficiaries are identified

October 31 of the year following the year of death

- Date at which trust documentation (in the case where as trust is named as a designated beneficiary) must be filed

December 31 of the year following the year of death

- Date at which the first distribution must be made by each IRA beneficiary
- Date at which separate shares must be created

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“Inherited” IRA

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<u>Objective</u>: Prolong IRA payments over longest possible period of time, thus increasing wealth to future generations

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“Inherited” IRA

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- An IRA is treated as “inherited” if the individual for whose benefit the IRA is maintained acquired the IRA on account of the death of the original owner.
- Under the tax law the IRA assets can be distributed based upon the life expectancy of the beneficiary.

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"Inherited" IRA

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Two Strategies

- Spousal Rollover
- Inherited IRA

Advantages

- Rollover delays RMD until spouse's own RBD
- Inherited IRA provisions allow beneficiary's life expectancy to be used for distributions after death of IRA owner

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Key Issues in Making the “Inherited IRA” Work

- Beneficiary Designation Forms
- Tax Apportionment
- Irrevocable Life Insurance Trust (ILIT)

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Spousal Beneficiary - Rollover

- Exception to Inherited IRA rules
- Only available to surviving spouse
- Allows spouse to roll over assets received as beneficiary to a new IRA in his/her own name
- Spouse’s age used to determine when required minimum distributions must begin
- Spouse may use the Uniform Lifetime Table to determine distributions

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Child / Grandchild Beneficiary

- Utilizes the exemption to the five year rule
- Avoids IRA assets being subject to estate tax in spouse's estate
- Achieves "Inherited IRA" to the degree that distributions occur over life expectancy of the designated beneficiary

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Child / Grandchild Beneficiary

- Life expectancy of child and/or grandchild determined in year after year of the IRA owner’s death by reference to the Single Life Table and then is reduced by a value of one each subsequent year

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Pension Protection Act of 2006

- Beginning in 2007, non-spousal beneficiaries (e.g. children, grandchildren, friends, etc.) are permitted to roll over a qualified retirement plan (e.g. 401(k)), via a trustee-to-trustee transfer, into an "inherited" IRA
- "Designated beneficiary" trusts are also permitted to roll over qualified retirement plans to "inherited" IRAs

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Common Mistakes to Avoid

- Incorrect titling
- Failure to take RMDs
- Failure to utilize disclaimers when appropriate
- Failure to analyze contingent beneficiaries when utilizing disclaimers
- Taking a lump-sum distribution

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Common Mistakes to Avoid

Spousal rollover before age 59 ½

- Will cause pre-59 ½ distributions to be subject to the 10% early distribution penalty.
- If no rollover occurred, pre-59 ½ distributions can be taken penalty free.

Solution

- Do not perform spousal rollover until spouse reaches age 59 ½.

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Common Mistakes to Avoid

For non-spousal beneficiaries, it is <u>critical</u> to keep inherited IRA in the name of the deceased IRA owner.

<u>Example (Individual):</u>

“John Smith, deceased, IRA for the benefit of James Smith”

<u>Example (Trust):</u>

“John Smith, deceased, IRA for the benefit of James Smith as Trustee of the Smith Family Trust dated 1/1/2007.”

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“Inherited” IRA Analysis – Case Study

Benefits

- Effectively shows the additional wealth generated by naming a qualified designated beneficiary of an IRA
- Provides a framework as to how to structure the IRA Trust
- Serves as a guide for post-mortem distributions

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"Inherited" IRA Analysis – Case Study

Scenarios

- Immediate distribution
- IRA payable to non-qualified beneficiary (five-year rule)
- IRA payable to surviving spouse (spousal rollover)
- IRA payable to child

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"Inherited" IRA Analysis – Case Study

Assumptions

- IRA owner's age - 68
- Spouse's age – 67
- Child's age – 35

- IRA balance - $500,000
- Brokerage account balance - $0

- Pre-tax growth rate – 8%
- Ordinary income tax rate – 40%
- Capital gains tax rate – 20%

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"Inherited" IRA Analysis – Case Study

Yr	Immediate Distribution	IRA Payable to Non-Qualified Beneficiary (Five-Year Rule)	IRA Payable to Surviving Spouse (Spousal Rollover)	IRA Payable to Child
5	$ 424,713	$ 734,664	$ 712,898	$ 709,235
10	$ 601,269	$ 624,042	$ 965,679	$ 993,194
15	$ 851,222	$ 883,462	$ 1,296,715	$ 1,384,000
20	$ 1,205,083	$ 1,250,725	$ 1,727,638	$ 1,917,956
25	$ 1,706,047	$ 1,770,662	$ 2,313,679	$ 2,641,305
30	$ 2,415,265	$ 2,506,742	$ 3,210,501	$ 3,611,318
35	$ 3,419,312	$ 3,548,817	$ 4,434,486	$ 4,896,101
40	$ 4,840,750	$ 5,024,091	$ 6,093,099	$ 6,571,657

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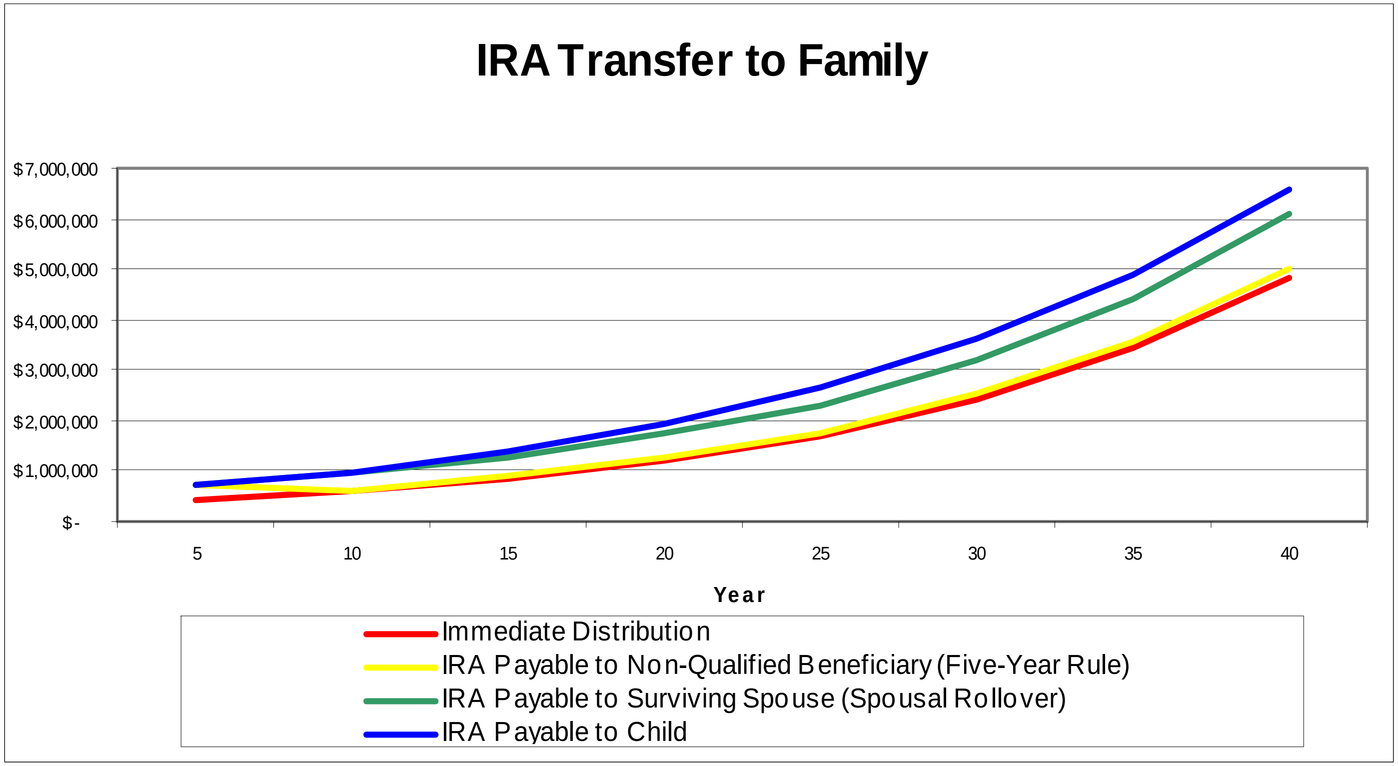

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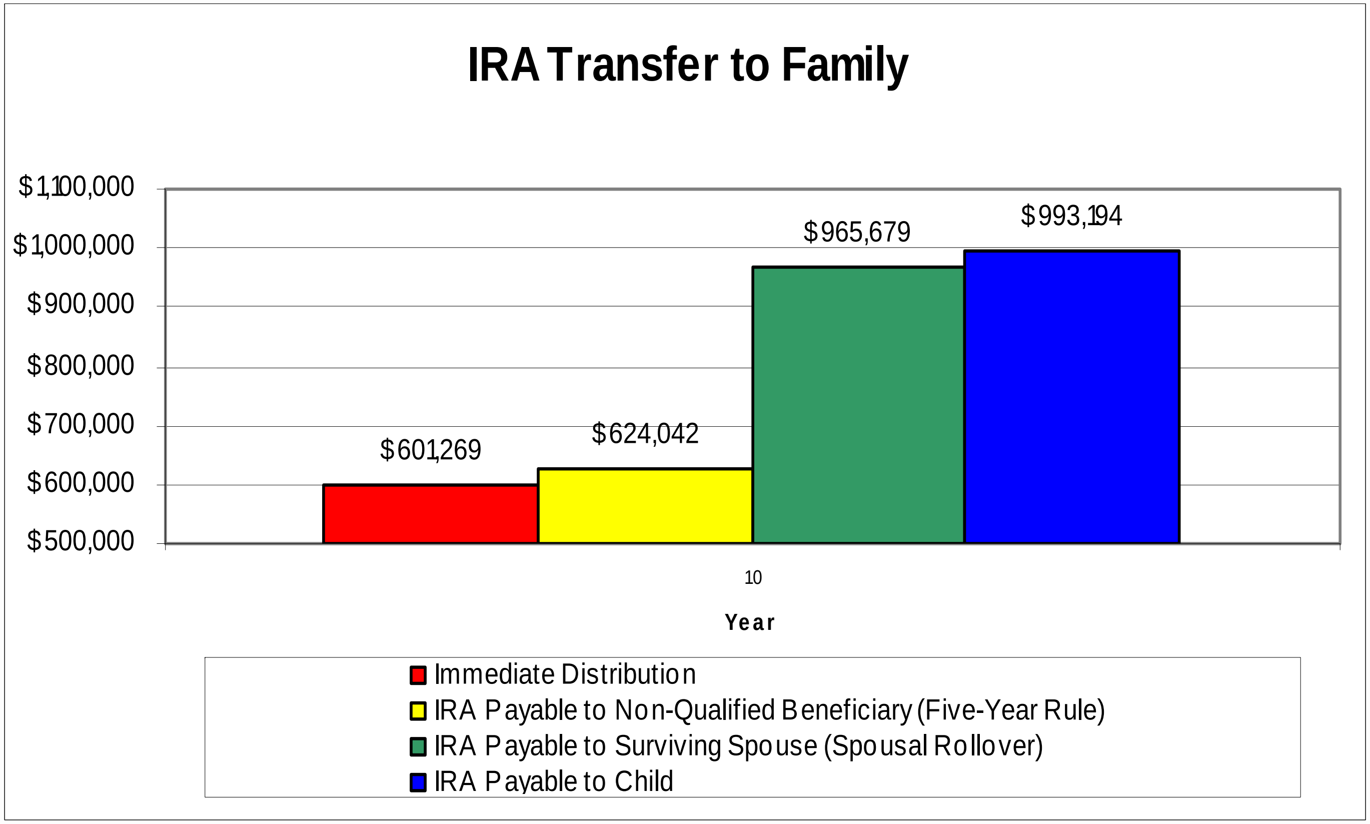
“Inherited” IRA

“Inherited” IRA Analysis – Case Study



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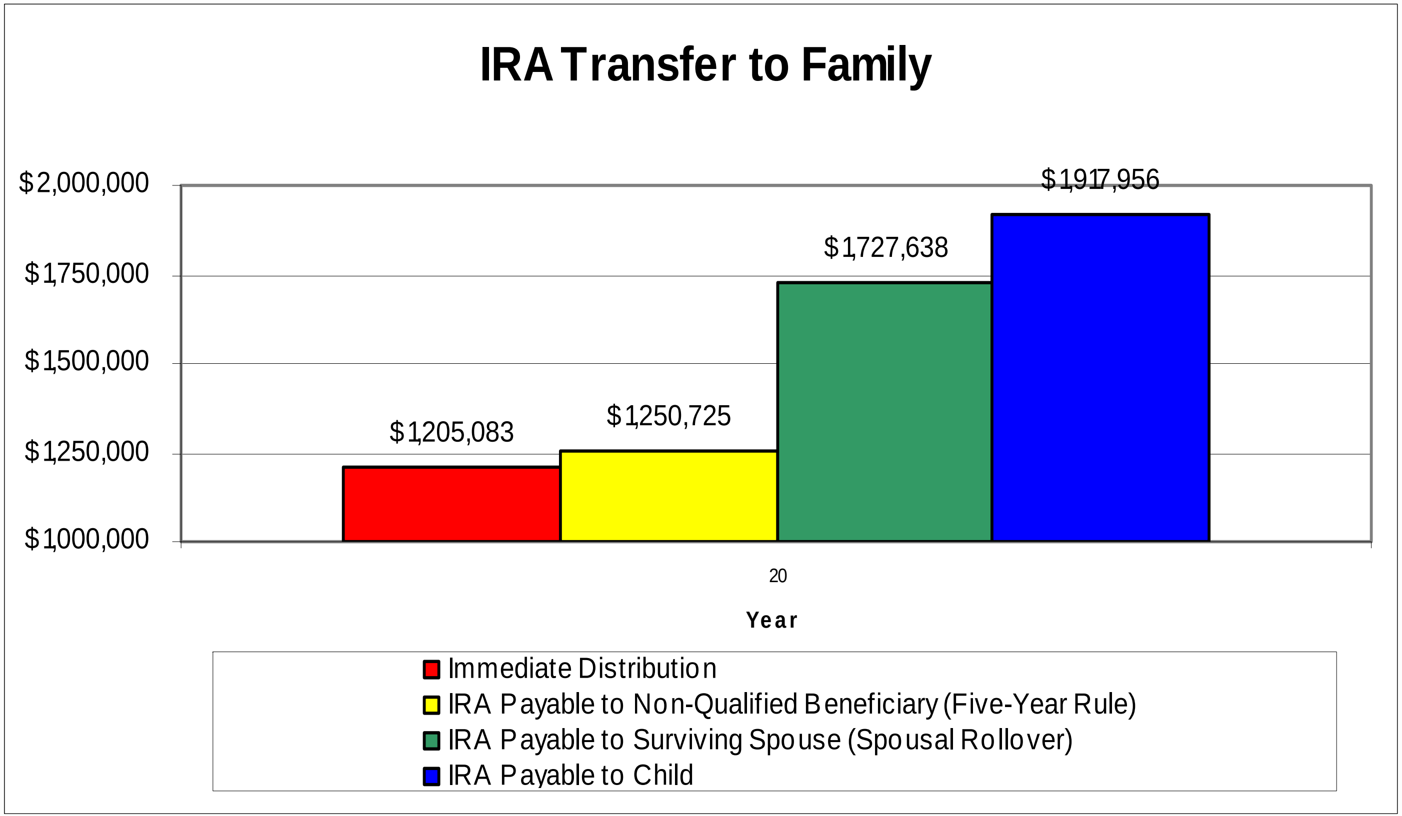

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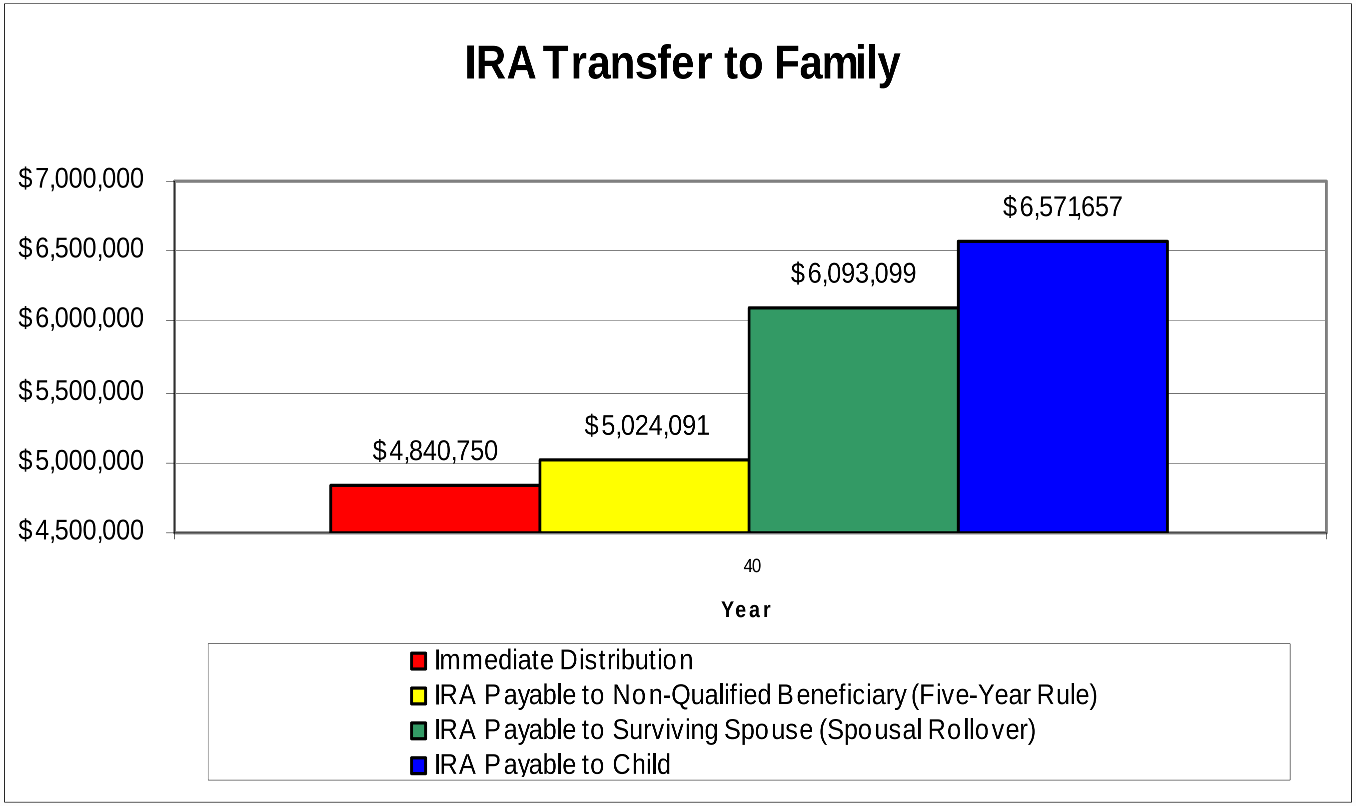

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How an IRA is Payable to a Trust

IRA

Beneficiary
Designation Form

Trust

Spouse

Children

IRA distributions over the life expectancy of the oldest beneficiary

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Benefits of Using a Trust

- Spendthrift protection
- Creditor protection
- Divorce protection
- Special needs
- Investment management
- Estate planning
- “Dead-hand” control

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Disadvantages of Using a Trust

- Trust tax rates
- Legal and trustee fees
- Income tax returns
- Greater complexity

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Disclaimer Planning

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Disclaimer must be "qualified."

- In writing
- Within 9 months
- No acceptance of the interest or any of its benefits
- Interest passes without any direction on the part of the person making the disclaimer

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Example

Alex dies at age 70. Alex's wife disclaims amount of Alex's unified credit to bypass trust for benefit of herself and their children

- Disclaimer must occur within nine months from date of death
- Disclaimer must be served to the IRA custodian
- Disclaimer must be fractional to avoid immediate income taxation

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Roth IRAs

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- 100% of growth is tax-exempt
- No required minimum distributions at age 70½
  - NOTE: Distributions from Roth IRAs cannot be used to fulfill the RMD from a traditional IRA
- $100,000 Modified Adjusted Gross Income (MAGI) limitation
- RMDs on Inherited Roth IRAs
- Roth 401(k) plans

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- Starting in 2010, the $100,000 Adjusted Gross Income (AGI) limitation no longer applies
  - The tax incurred on a Roth IRA conversion in 2010 may be spread over the following two tax years (i.e. 2011 and 2012)

- Married Filing Separately taxpayers can convert to a Roth IRA

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Convertible accounts

- Traditional IRAs
- 401(k) plans (Starting in 2008)
- Profit sharing plans (Starting in 2008)
- 403(b) annuity plans (Starting in 2008)
- 457 plans (Starting in 2008)

Non-Convertible accounts

- “Inherited” IRAs
- Education IRAs

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Taxation of Distributions

- Basis Can be Withdrawn Tax-Free (FIFO Method)
- Distributions are not subject to income tax if they do not exceed aggregate contributions and/or conversions to the Roth IRA
- Withdrawals made within five years of conversion if owner under age 59½ and no other exception applies
- Five-year period independent of five-year period for qualified distribution

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Roth IRAs
Seven Reasons to Convert to Roth IRAs

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(1) Taxpayers have special favorable tax attributes including charitable deduction carry-forwards, investment tax credits, etc.

(2) Suspension of the minimum distribution rules at age 70½ provides a considerable advantage to the Roth IRA holder.

(3) Taxpayers benefit from paying income tax before estate tax (when a Roth IRA election is made) compared to the income tax deduction obtained when a traditional IRA is subject to estate tax.

(4) Taxpayers who can pay the income tax on the IRA from non IRA funds benefit greatly from the Roth IRA because of the ability to enjoy greater tax-free yields.

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Roth IRAs
Seven Reasons to Convert to Roth IRAs

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(5) Taxpayers who need to use IRA assets to fund their Unified Credit bypass trust are well advised to consider making a Roth IRA election for that portion of their overall IRA funds.

(6) Taxpayers making the Roth IRA election during their lifetime reduce their overall estate, thereby lowering the effect of higher estate tax rates.

(7) Because federal tax brackets are more favorable for married couples filing joint returns than for single individuals, Roth IRA distributions won't cause an increase in tax rates for the surviving spouse when one spouse is deceased because the distributions are tax-free.

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Understanding the Mechanics

- The key to successful Roth IRA conversions is to keep as much of the conversion income as possible in the current marginal tax bracket
  - However, there are times when it may make sense to convert more and go into higher tax brackets

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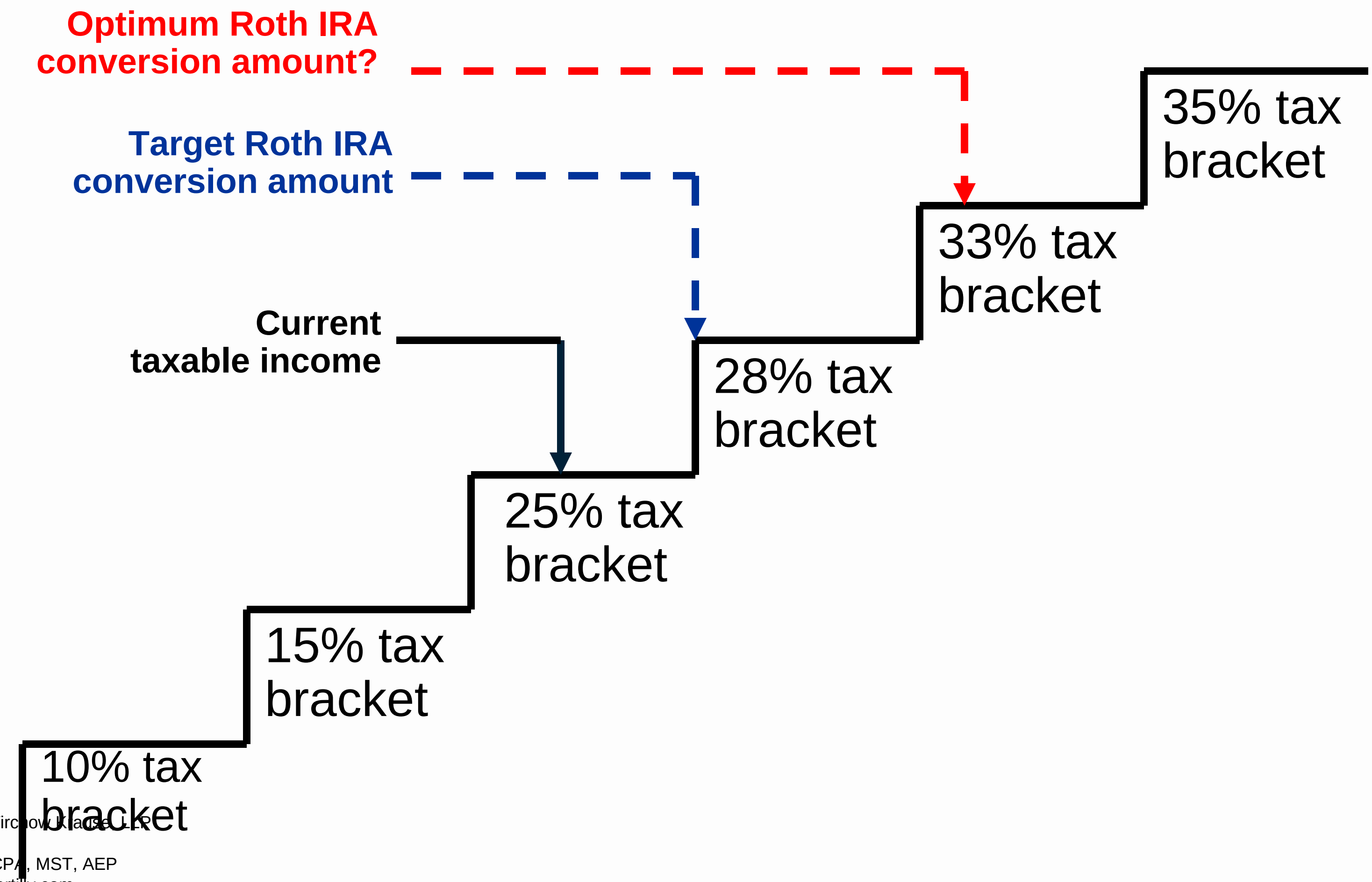
Understanding the Mechanics



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Understanding the Mechanics
Example 1 – Same Growth & Tax Rates

	No Conversion			Roth IRA Conversion		
	Traditional IRA	Brokerage Account	Total	Roth IRA	Brokerage Account	Total
Beginning Balance	$ 1,000,000	$ 400,000	$ 1,400,000	$ 1,000,000	$ 400,000	$ 1,400,000
Income Tax on Withdrawal	$ (400,000)	$ -	$ (400,000)	$ -	$ (400,000)	$ (400,000)
After-Tax Balance	$ 600,000	$ 400,000	$ 1,000,000	$ 1,000,000	$ -	$ 1,000,000
Balance in 10 Years	$ 1,967,151	$ 786,861	$ 2,754,012	$ 1,967,151	$ -	$ 1,967,151
Income Tax on Withdrawal	$ (786,861)	$ -	$ (786,861)	$ -	$ -	$ -
After-Tax Balance	$ 1,180,291	$ 786,861	$ 1,967,151	$ 1,967,151	$ -	$ 1,967,151
Balance in 20 Years	$ 3,869,684	$ 1,547,874	$ 5,417,558	$ 3,869,684	$ -	$ 3,869,684
Income Tax on Withdrawal	$ (1,547,874)	$ -	$ (1,547,874)	$ -	$ -	$ -
After-Tax Balance	$ 2,321,811	$ 1,547,874	$ 3,869,684	$ 3,869,684	$ -	$ 3,869,684
Balance in 30 Years	$ 7,612,255	$ 3,044,902	$ 10,657,157	$ 7,612,255	$ -	$ 7,612,255
Income Tax on Withdrawal	$ (3,044,902)	$ -	$ (3,044,902)	$ -	$ -	$ -
After-Tax Balance	$ 4,567,353	$ 3,044,902	$ 7,612,255	$ 7,612,255	$ -	$ 7,612,255

ASSUMPTIONS:

Pre-Tax Growth Rate on IRA = 7.00%

After-Tax Growth Rate on Brokerage Account = 7.00%

Combined Income Tax Rate - Withdrawal Years = 40.00%

Combined Income Tax Rate - Conversion Year = 40.00%

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Roth IRAs

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Understanding the Mechanics

Example 2 – Same Tax Rates / Different Growth Rates

	No Conversion			Roth IRA Conversion			
	Traditional IRA	Brokerage Account	Total	Roth IRA	Brokerage Account	Total	Difference $
Beginning Balance	$ 1,000,000	$ 400,000	$ 1,400,000	$ 1,000,000	$ 400,000	$ 1,400,000	
Income Tax on Withdrawal	$ (400,000)	$ -	$ (400,000)	$ -	$ (400,000)	$ (400,000)	
After-Tax Balance	$ 600,000	$ 400,000	$ 1,000,000	$ 1,000,000	$ -	$ 1,000,000	**$ -**
Balance in 10 Years	$ 1,967,151	$ 683,258	$ 2,650,409	$ 1,967,151	$ -	$ 1,967,151	
Income Tax on Withdrawal	$ (786,861)	$ -	$ (786,861)	$ -	$ -	$ -	
After-Tax Balance	$ 1,180,291	$ 683,258	$ 1,863,549	$ 1,967,151	$ -	$ 1,967,151	**$ 103,603**
Balance in 20 Years	$ 3,869,684	$ 1,167,103	$ 5,036,787	$ 3,869,684	$ -	$ 3,869,684	
Income Tax on Withdrawal	$ (1,547,874)	$ -	$ (1,547,874)	$ -	$ -	$ -	
After-Tax Balance	$ 2,321,811	$ 1,167,103	$ 3,488,914	$ 3,869,684	$ -	$ 3,869,684	**$ 380,771**
Balance in 30 Years	$ 7,612,255	$ 1,993,581	$ 9,605,836	$ 7,612,255	$ -	$ 7,612,255	
Income Tax on Withdrawal	$ (3,044,902)	$ -	$ (3,044,902)	$ -	$ -	$ -	
After-Tax Balance	$ 4,567,353	$ 1,993,581	$ 6,560,934	$ 7,612,255	$ -	$ 7,612,255	**$ 1,051,322**

ASSUMPTIONS:

Pre-Tax Growth Rate on IRA = 7.00%

After-Tax Growth Rate on Brokerage Account = 5.50%

Combined Income Tax Rate - Withdrawal Years = 40.00%

Combined Income Tax Rate - Conversion Year = 40.00%

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Roth IRAs

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Understanding the Mechanics

Example 3 – Different Growth & Tax Rates (Higher Tax Rate in Future Years)

	No Conversion			Roth IRA Conversion			
	Traditional IRA	Brokerage Account	Total	Roth IRA	Brokerage Account	Total	Difference ($)
Beginning Balance	$ 1,000,000	$ 400,000	$ 1,400,000	$ 1,000,000	$ 400,000	$ 1,400,000	
Income Tax on Withdrawal	$ (400,000)	$ -	$ (400,000)	$ -	$ (300,000)	$ (300,000)	
After-Tax Balance	$ 600,000	$ 400,000	$ 1,000,000	$ 1,000,000	$ 100,000	$ 1,100,000	**$ 100,000**
Balance in 10 Years	$ 1,967,151	$ 683,258	$ 2,650,409	$ 1,967,151	$ 170,814	$ 2,137,966	
Income Tax on Withdrawal	$ (786,861)	$ -	$ (786,861)	$ -	$ -	$ -	
After-Tax Balance	$ 1,180,291	$ 683,258	$ 1,863,549	$ 1,967,151	$ 170,814	$ 2,137,966	**$ 274,417**
Balance in 20 Years	$ 3,869,684	$ 1,167,103	$ 5,036,787	$ 3,869,684	$ 291,776	$ 4,161,460	
Income Tax on Withdrawal	$ (1,547,874)	$ -	$ (1,547,874)	$ -	$ -	$ -	
After-Tax Balance	$ 2,321,811	$ 1,167,103	$ 3,488,914	$ 3,869,684	$ 291,776	$ 4,161,460	**$ 672,547**
Balance in 30 Years	$ 7,612,255	$ 1,993,581	$ 9,605,836	$ 7,612,255	$ 498,395	$ 8,110,650	
Income Tax on Withdrawal	$ (3,044,902)	$ -	$ (3,044,902)	$ -	$ -	$ -	
After-Tax Balance	$ 4,567,353	$ 1,993,581	$ 6,560,934	$ 7,612,255	$ 498,395	$ 8,110,650	**$ 1,549,717**

ASSUMPTIONS:

Pre-Tax Growth Rate on IRA = 7.00%

After-Tax Growth Rate on Brokerage Account = 5.50%

Combined Income Tax Rate - Withdrawal Years = 40.00%

Combined Income Tax Rate - Conversion Year = 30.00%

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Understanding the Mechanics

- **Taxpayers may recharacterize (i.e. "undo") the Roth IRA conversion in current year or by the filing date of the current year's tax return**
  - Recharacterization can take place as late as 10/15 in the year following the year of conversion

- **Taxpayers may choose to "reconvert" their recharacterization**
  - Reconversion may only take place at the later of the following two dates:
    - The tax year following the original conversion ***OR***
    - 30 days after the recharacterization

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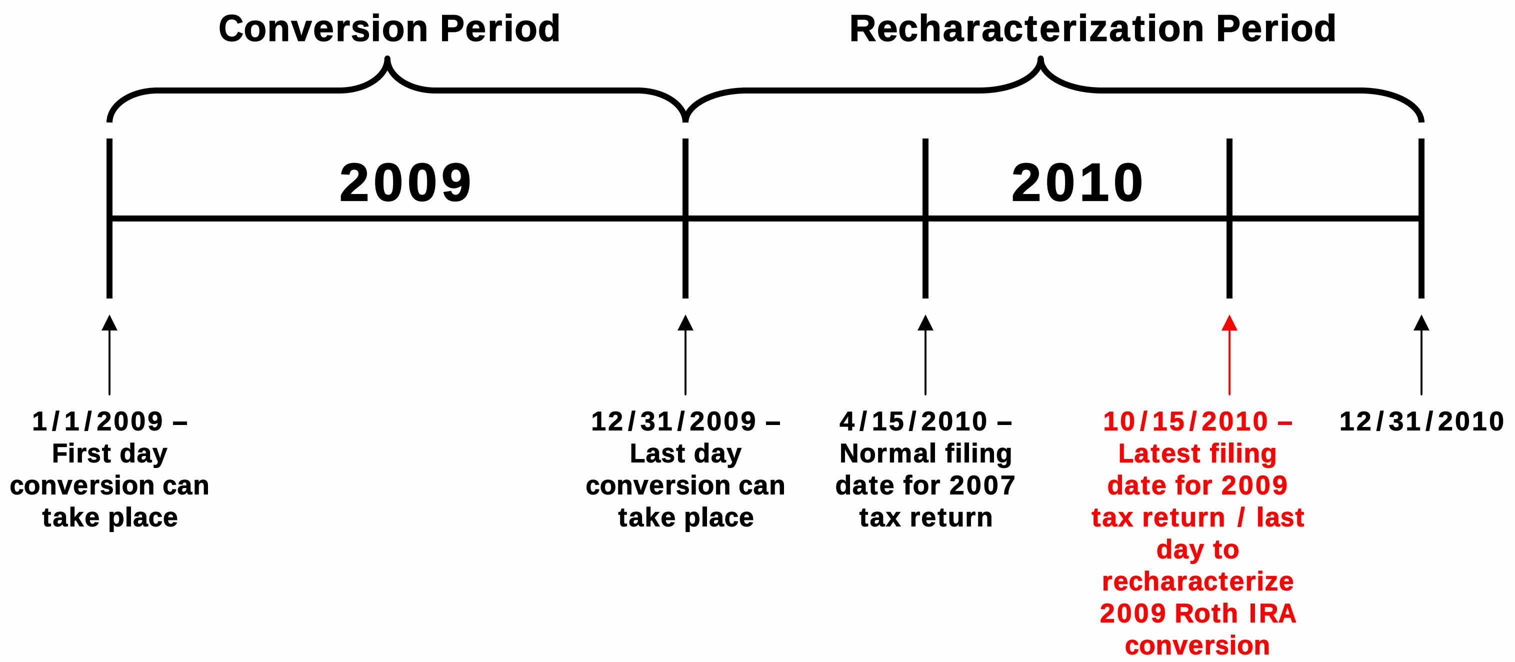
Roth IRA Conversion Timetable



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