

Comparison of Inherited IRA vs. Inherited Roth IRA

For: Caroline Dorsey Baker



Presented By: _____

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Comparison Analysis of Cash Flow and Plan Assets

Inherited IRA vs. Inherited Roth IRA

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Preface

Note from Bob: Check out the graphic at the bottom of this page.
It's easy to overlook.

Parents

The two advantages of parents utilizing a Roth IRA instead of an IRA are 1) tax free distributions from plan values and 2) the absence of government-directed required minimum distributions. There is one tax disadvantage -- contributions to a Roth are not deductible. If an IRA is currently in force, it can be converted to a Roth, but only with payment of income taxes on the converted amount, a condition that causes some to avoid such conversions.

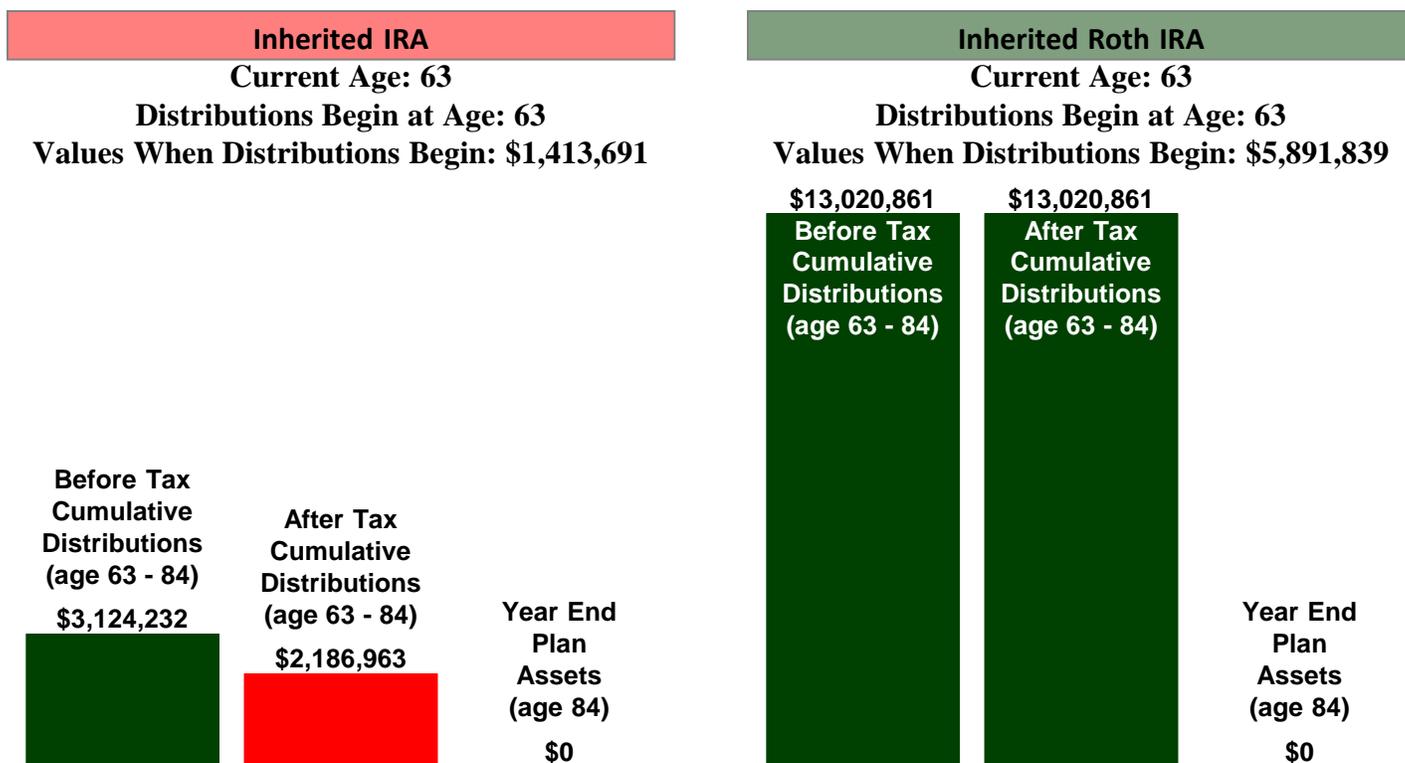
Children

An extraordinary third advantage of the Roth goes to the children who inherit it. An inherited IRA and an inherited Roth IRA are both subject to required minimum distributions; however, distributions from an inherited Roth are tax free producing significantly higher cash flow for the heirs.

Conclusion

Due to the Roth's absence of required minimum distributions for the parents, the inherited Roth IRA will typically have a greater beginning account value than an inherited IRA. This, coupled with tax free distributions from the inherited Roth, can produce a major difference in wealth for heirs. From an inter-generational perspective, a Roth for the parents transformed into an inherited Roth for the children is a winner by a substantial margin for all participants.

Below is a summary of the distribution results from this analysis.



Inherited IRA vs. Inherited Roth IRA

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Comparison Analysis of Cash Flow and Plan Assets

		Plan Yield 7.00%					Beneficiary's Income Tax Bracket 30.00%					Plan Yield 7.00%				
		Inherited IRA					Inherited Roth IRA									
Year	Age	(1) Beginning of Year Balance in Plan Assets	(2)* Before Tax IRS Required Minimum Distribution	(3) Before Tax Scheduled Distribution	(4) After Tax Scheduled Distribution	(5) Year End Plan Assets	(6) Beginning of Year Balance in Plan Assets	(7)* Before Tax IRS Required Minimum Distribution	(8) Before Tax Scheduled Distribution	(9)** After Tax Scheduled Distribution	(10) Year End Plan Assets					
1	63	1,413,691	64,848	64,848	45,394	1,443,262	5,891,839	270,268	270,268	270,268	6,015,081					
2	64	1,443,262	69,388	69,388	48,572	1,470,045	6,015,081	289,187	289,187	289,187	6,126,707					
3	65	1,470,045	74,245	74,245	51,972	1,493,506	6,126,707	309,430	309,430	309,430	6,224,486					
4	66	1,493,506	79,442	79,442	55,609	1,513,049	6,224,486	331,090	331,090	331,090	6,305,934					
5	67	1,513,049	85,003	85,003	59,502	1,528,009	6,305,934	354,266	354,266	354,266	6,368,284					
6	68	1,528,009	90,953	90,953	63,667	1,537,650	6,368,284	379,065	379,065	379,065	6,408,465					
7	69	1,537,650	97,320	97,320	68,124	1,541,153	6,408,465	405,599	405,599	405,599	6,423,066					
8	70	1,541,153	104,132	104,132	72,892	1,537,612	6,423,066	433,991	433,991	433,991	6,408,311					
9	71	1,537,612	111,421	111,421	77,995	1,526,025	6,408,311	464,370	464,370	464,370	6,360,016					
10	72	1,526,025	119,221	119,221	83,455	1,505,280	6,360,016	496,876	496,876	496,876	6,273,560					
11	73	1,505,280	127,566	127,566	89,296	1,474,154	6,273,560	531,658	531,658	531,658	6,143,835					
12	74	1,474,154	136,496	136,496	95,547	1,431,294	6,143,835	568,874	568,874	568,874	5,965,209					
13	75	1,431,294	146,050	146,050	102,235	1,375,211	5,965,209	608,695	608,695	608,695	5,731,470					
14	76	1,375,211	156,274	156,274	109,392	1,304,263	5,731,470	651,303	651,303	651,303	5,435,778					
15	77	1,304,263	167,213	167,213	117,049	1,216,643	5,435,778	696,895	696,895	696,895	5,070,605					
16	78	1,216,643	178,918	178,918	125,243	1,110,366	5,070,605	745,677	745,677	745,677	4,627,673					
17	79	1,110,366	191,442	191,442	134,009	983,249	4,627,673	797,875	797,875	797,875	4,097,884					
18	80	983,249	204,843	204,843	143,390	832,894	4,097,884	853,726	853,726	853,726	3,471,249					
19	81	832,894	219,183	219,183	153,428	656,671	3,471,249	913,487	913,487	913,487	2,736,805					
20	82	656,671	234,525	234,525	164,168	451,696	2,736,805	977,431	977,431	977,431	1,882,531					
21	83	451,696	250,942	250,942	175,659	214,807	1,882,531	1,045,850	1,045,850	1,045,850	895,248					
22	84	214,807	214,807	214,807	150,365	0	895,248	895,248	895,248	895,248	0					
			3,124,232	3,124,232	2,186,963		13,020,861	13,020,861	13,020,861							

**Beneficiary's income tax bracket is irrelevant with this Roth IRA.

*Columns (2) and (7) are estimates of required minimum distributions based on asset value and beneficiary's life expectancy (reduced by one each year thereafter).

Plan results are hypothetical only. Actual results will vary due to changes in contributions and withdrawals, income tax brackets, and investment performance.

22 Year Summary		
	Inherited IRA	Inherited Roth IRA
Plan Assets	0	0
Cum. After Tax Distributions	2,186,963	13,020,861

Inherited IRA vs. Inherited Roth IRA

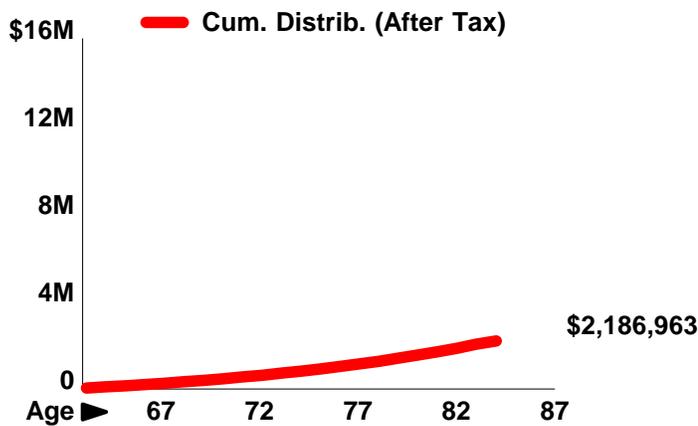
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For: Caroline Dorsey Baker

Comparison Analysis

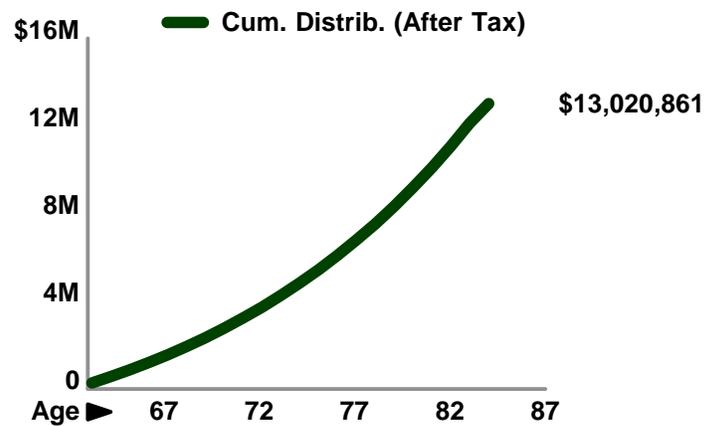
Inherited IRA

Cumulative Distributions
(After Tax)

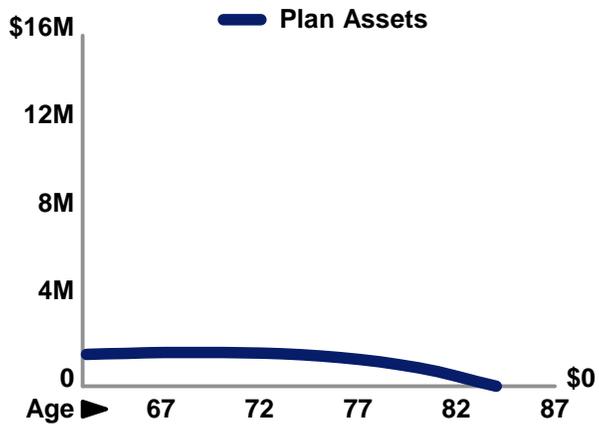


Inherited Roth IRA

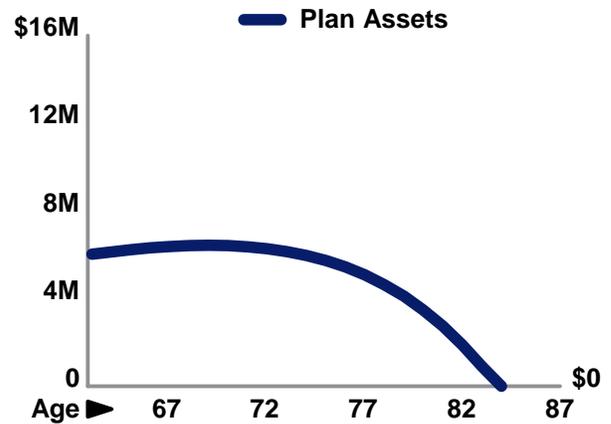
Cumulative Distributions
(After Tax)



Plan Assets



Plan Assets



Note: All projections are based on client furnished data and assumptions.

Inherited IRA

Preface

An inherited IRA is an asset accumulation and distribution program that has been granted special tax consideration. It has the following characteristics:

Additional Contributions

There is no provision for additional contributions.

Tax Free Growth

As values grow, earnings are not subject to income tax.

Taxable Distributions

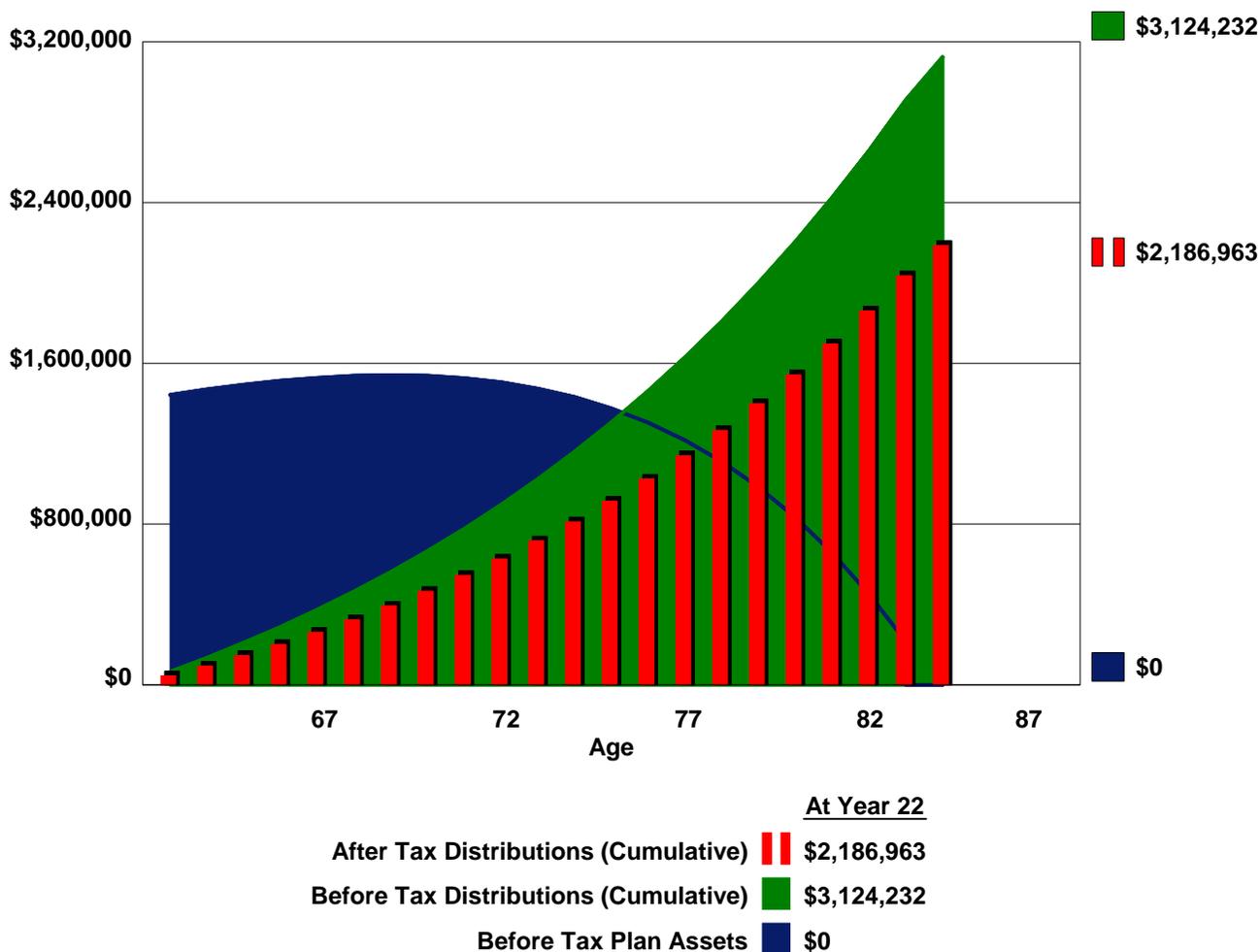
Distributions in excess of any cost basis are subject

to income tax, however, a deduction is allowed for any estate tax attributable to the income which accrued prior to the owner's death.

Required Minimum Distributions

There are required minimum distributions from such plans based on age(s) of participants and IRS formulas.

As a result of its powerful tax free growth component, an IRA is a valuable financial instrument to inherit. The accompanying material should be helpful to you in analyzing the value of such a plan.



Note: All projections are based on client furnished data and assumptions.

Inherited IRA

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Distribution

		Current Value 1,413,691	Plan Yield 7.00%	Beneficiary's Income Tax Bracket 30.00%				
Year	Age	(1) Beginning of Year Balance in Plan Assets	(2) Before Tax IRS Required Minimum Distribution*	(3) Before Tax Scheduled Distribution	(4) Taxable Portion of Scheduled Distribution Column (3)	(5) Income Tax Owed	(6) After Tax Income from Scheduled Distribution (3) - (5)	(7) Year End Plan Assets
1	63	1,413,691	64,848	64,848	64,848	19,454	45,394	1,443,262
2	64	1,443,262	69,388	69,388	69,388	20,816	48,572	1,470,045
3	65	1,470,045	74,245	74,245	74,245	22,274	51,972	1,493,506
4	66	1,493,506	79,442	79,442	79,442	23,833	55,609	1,513,049
5	67	1,513,049	85,003	85,003	85,003	25,501	59,502	1,528,009
6	68	1,528,009	90,953	90,953	90,953	27,286	63,667	1,537,650
7	69	1,537,650	97,320	97,320	97,320	29,196	68,124	1,541,153
8	70	1,541,153	104,132	104,132	104,132	31,240	72,892	1,537,612
9	71	1,537,612	111,421	111,421	111,421	33,426	77,995	1,526,025
10	72	1,526,025	119,221	119,221	119,221	35,766	83,455	1,505,280
11	73	1,505,280	127,566	127,566	127,566	38,270	89,296	1,474,154
12	74	1,474,154	136,496	136,496	136,496	40,949	95,547	1,431,294
13	75	1,431,294	146,050	146,050	146,050	43,815	102,235	1,375,211
14	76	1,375,211	156,274	156,274	156,274	46,882	109,392	1,304,263
15	77	1,304,263	167,213	167,213	167,213	50,164	117,049	1,216,643
16	78	1,216,643	178,918	178,918	178,918	53,675	125,243	1,110,366
17	79	1,110,366	191,442	191,442	191,442	57,433	134,009	983,249
18	80	983,249	204,843	204,843	204,843	61,453	143,390	832,894
19	81	832,894	219,183	219,183	219,183	65,755	153,428	656,671
20	82	656,671	234,525	234,525	234,525	70,358	164,168	451,696
21	83	451,696	250,942	250,942	250,942	75,283	175,659	214,807
22	84	214,807	214,807	214,807	214,807	64,442	150,365	0
			3,124,232	3,124,232	3,124,232	937,271	2,186,963	

Inherited IRA Plan assets were assumed inherited with a value of \$1,413,691.

*Column (2) projects an estimate of the required minimum distribution based on asset value and beneficiary's life expectancy (reduced by one each year thereafter).

Plan results are hypothetical only. Actual results will vary due to changes in contributions and withdrawals, income tax brackets, and investment performance.

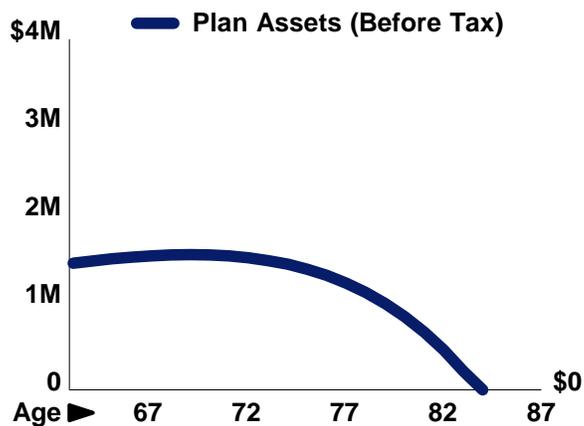
Inherited IRA

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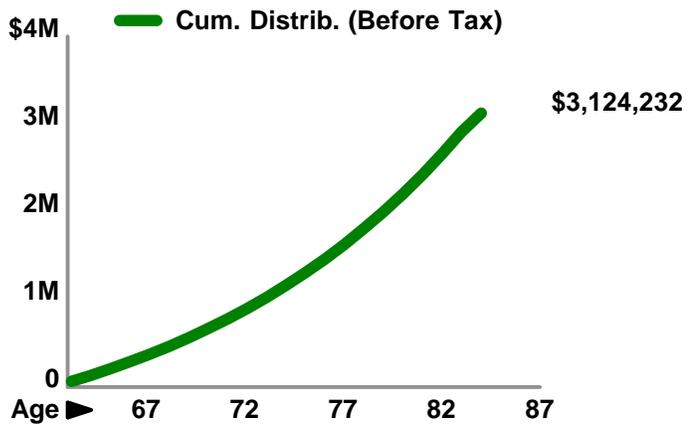
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Distribution

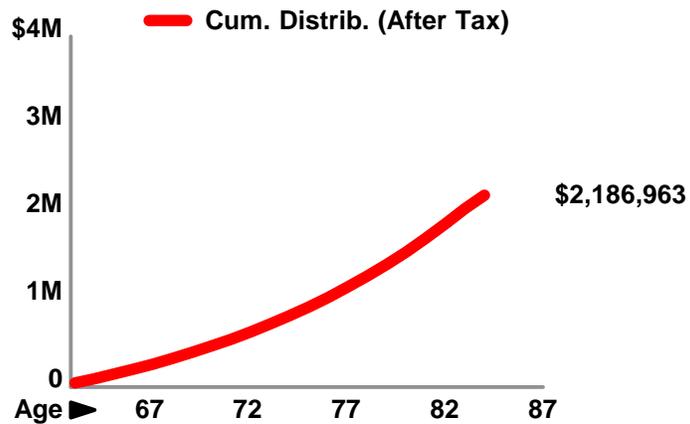
Plan Assets
(Before Tax)



Cumulative Distributions
(Before Tax)



Cumulative Distributions
(After Tax)



Note: All projections are based on client furnished data and assumptions.

Inherited Roth IRA

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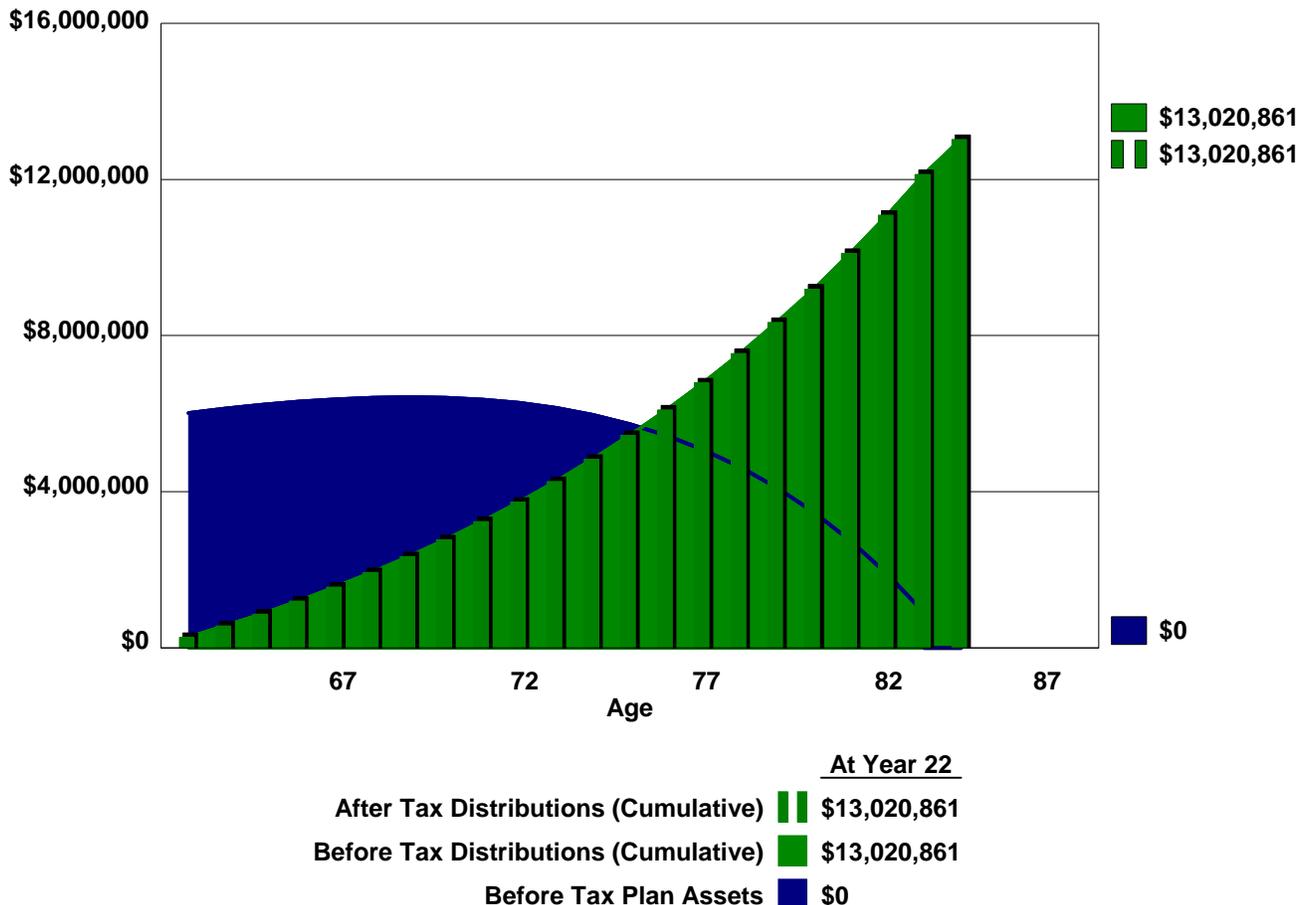
Tax Free Distributions

Distributions are income tax free.

Required Minimum Distributions

There are required minimum distributions from such plans based on age(s) of participants and IRS formulas.

As a result of the dynamic combination of tax free growth and tax free distributions, an inherited Roth IRA is an extraordinary financial instrument. The accompanying material should be helpful to you in analyzing the value of such a plan.



Note: All projections are based on client furnished data and assumptions.

Inherited Roth IRA

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Distribution

Current Value
5,891,839

Plan
Yield
7.00%

Year	Age	(1) Beginning of Year Balance in Plan Assets	(2) Before Tax IRS Required Minimum Distribution*	(3) Before Tax Scheduled Distribution	(4) After Tax Income from Scheduled Distribution	(5) Year End Plan Assets
1	63	5,891,839	270,268	270,268	270,268	6,015,081
2	64	6,015,081	289,187	289,187	289,187	6,126,707
3	65	6,126,707	309,430	309,430	309,430	6,224,486
4	66	6,224,486	331,090	331,090	331,090	6,305,934
5	67	6,305,934	354,266	354,266	354,266	6,368,284
6	68	6,368,284	379,065	379,065	379,065	6,408,465
7	69	6,408,465	405,599	405,599	405,599	6,423,066
8	70	6,423,066	433,991	433,991	433,991	6,408,311
9	71	6,408,311	464,370	464,370	464,370	6,360,016
10	72	6,360,016	496,876	496,876	496,876	6,273,560
11	73	6,273,560	531,658	531,658	531,658	6,143,835
12	74	6,143,835	568,874	568,874	568,874	5,965,209
13	75	5,965,209	608,695	608,695	608,695	5,731,470
14	76	5,731,470	651,303	651,303	651,303	5,435,778
15	77	5,435,778	696,895	696,895	696,895	5,070,605
16	78	5,070,605	745,677	745,677	745,677	4,627,673
17	79	4,627,673	797,875	797,875	797,875	4,097,884
18	80	4,097,884	853,726	853,726	853,726	3,471,249
19	81	3,471,249	913,487	913,487	913,487	2,736,805
20	82	2,736,805	977,431	977,431	977,431	1,882,531
21	83	1,882,531	1,045,850	1,045,850	1,045,850	895,248
22	84	895,248	895,248	895,248	895,248	0

13,020,861

13,020,861

13,020,861

*Column (2) projects an estimate of the required minimum distribution based on asset value and beneficiary's life expectancy (reduced by one each year thereafter).

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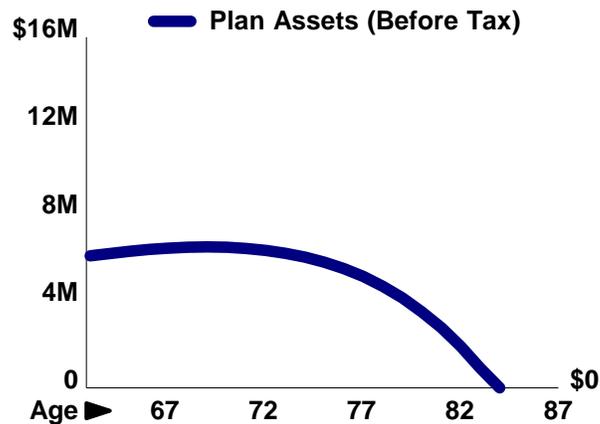
Inherited Roth IRA

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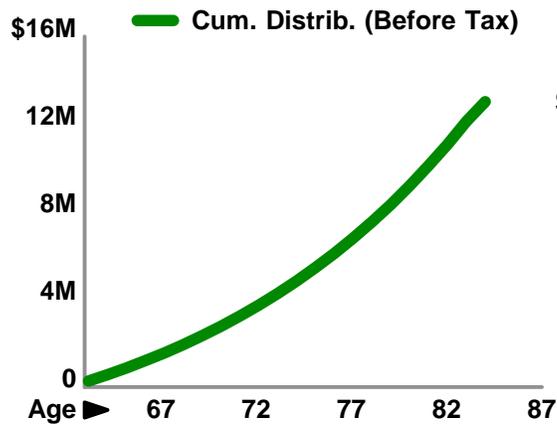
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Distribution

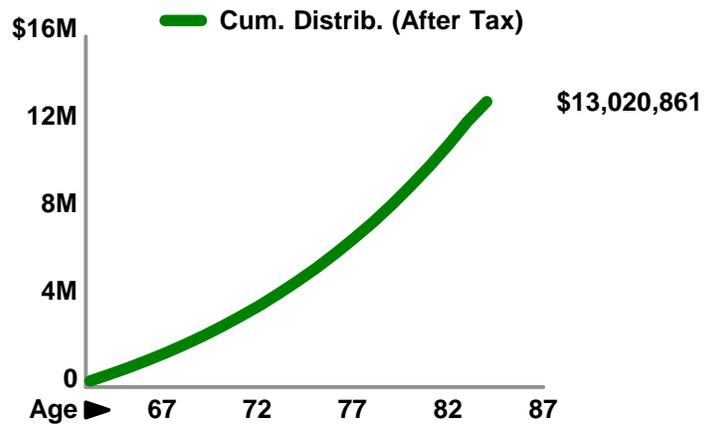
Plan Assets
(Before Tax)



Cumulative Distributions
(Before Tax)



Cumulative Distributions
(After Tax)



Note: All projections are based on client furnished data and assumptions.