

Inherited IRA vs. Inherited Roth IRA

For: Scott Baxter



Presented By: _____

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Table of Contents

Inherited IRA vs. Inherited Roth IRA	Page 1
Inherited IRA	Page 6
Inherited Roth IRA	Page 11

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Preface

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.

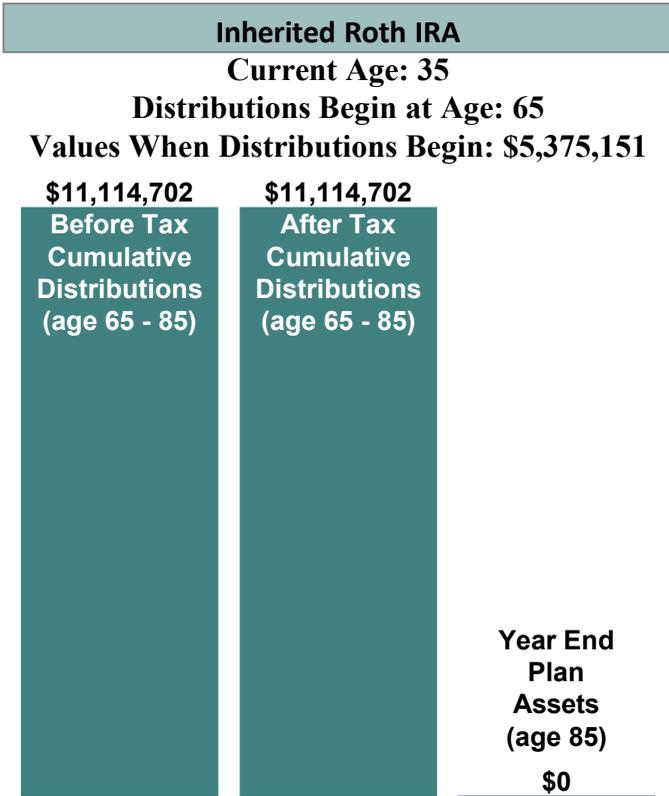
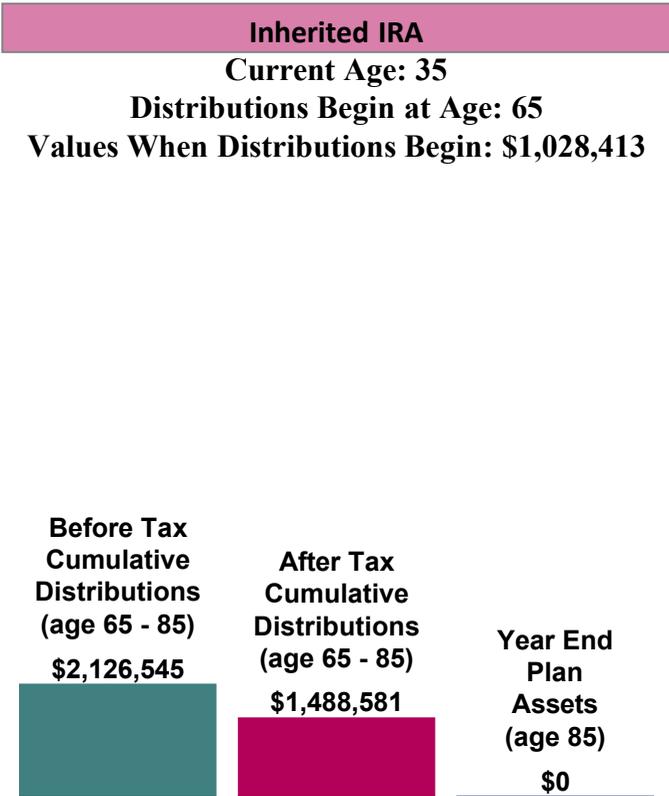
Children

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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Inherited IRA vs. Inherited Roth IRA

		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	65	1,028,413	50,912	50,912	35,638	1,045,926	5,375,151	266,097	266,097	266,097	5,466,688					
2	66	1,045,926	54,475	54,475	38,133	1,060,853	5,466,688	284,723	284,723	284,723	5,544,702					
3	67	1,060,853	58,289	58,289	40,802	1,072,743	5,544,702	304,654	304,654	304,654	5,606,852					
4	68	1,072,743	62,369	62,369	43,658	1,081,100	5,606,852	325,980	325,980	325,980	5,650,533					
5	69	1,081,100	66,735	66,735	46,715	1,085,371	5,650,533	348,798	348,798	348,798	5,672,856					
6	70	1,085,371	71,406	71,406	49,984	1,084,942	5,672,856	373,214	373,214	373,214	5,670,617					
7	71	1,084,942	76,404	76,404	53,483	1,079,136	5,670,617	399,339	399,339	399,339	5,640,268					
8	72	1,079,136	81,753	81,753	57,227	1,067,200	5,640,268	427,293	427,293	427,293	5,577,883					
9	73	1,067,200	87,475	87,475	61,233	1,048,306	5,577,883	457,204	457,204	457,204	5,479,126					
10	74	1,048,306	93,599	93,599	65,519	1,021,536	5,479,126	489,208	489,208	489,208	5,339,213					
11	75	1,021,536	100,151	100,151	70,106	985,882	5,339,213	523,452	523,452	523,452	5,152,864					
12	76	985,882	107,161	107,161	75,013	940,232	5,152,864	560,094	560,094	560,094	4,914,264					
13	77	940,232	114,662	114,662	80,263	883,359	4,914,264	599,300	599,300	599,300	4,617,011					
14	78	883,359	122,689	122,689	85,882	813,917	4,617,011	641,252	641,252	641,252	4,254,062					
15	79	813,917	131,277	131,277	91,894	730,425	4,254,062	686,139	686,139	686,139	3,817,678					
16	80	730,425	140,466	140,466	98,326	631,256	3,817,678	734,169	734,169	734,169	3,299,355					
17	81	631,256	150,299	150,299	105,209	514,624	3,299,355	785,561	785,561	785,561	2,689,759					
18	82	514,624	160,820	160,820	112,574	378,571	2,689,759	840,550	840,550	840,550	1,978,654					
19	83	378,571	172,078	172,078	120,455	220,947	1,978,654	899,388	899,388	899,388	1,154,814					
20	84	220,947	184,123	184,123	128,886	39,402	1,154,814	962,345	962,345	962,345	205,942					
21	85	39,402	39,402	39,402	27,581	0	205,942	205,942	205,942	205,942	0					
			2,126,545	2,126,545	1,488,581			11,114,702	11,114,702	11,114,702						

**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.

21 Year Summary

	Inherited IRA	Inherited Roth IRA
Plan Assets	0	0
Cum. After Tax Distributions	1,488,581	11,114,702

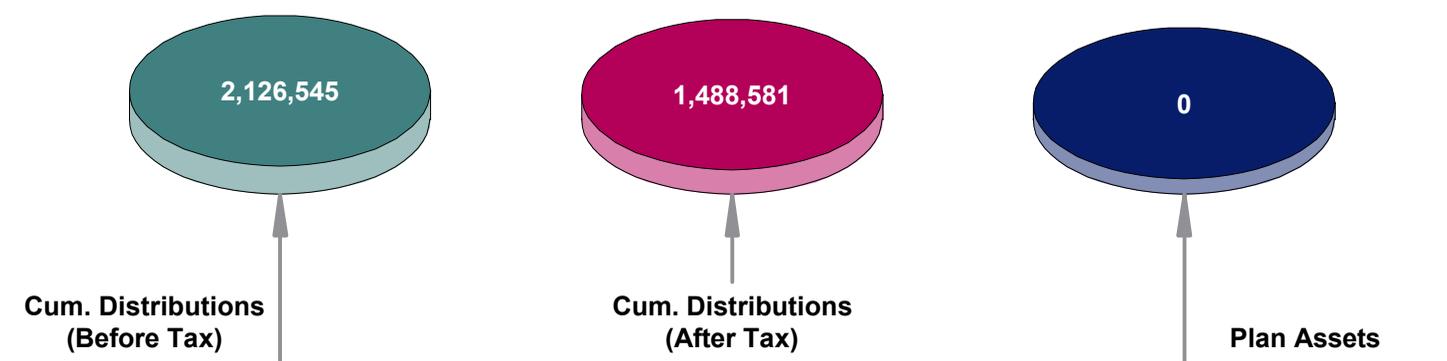
Inherited IRA vs. Inherited Roth IRA

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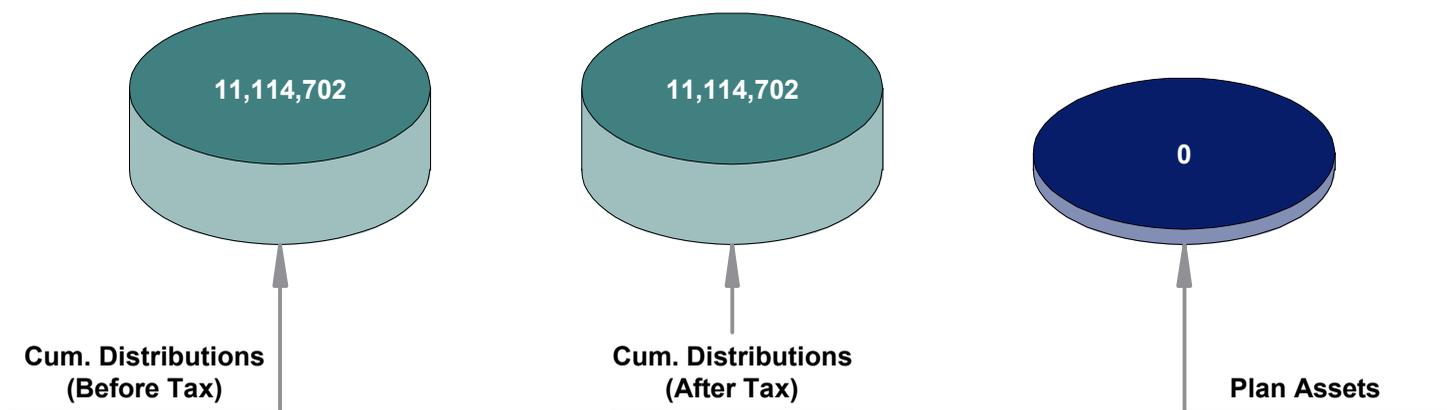
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Summary Analysis at age 85

Inherited IRA



Inherited Roth IRA



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

Inherited IRA vs. Inherited Roth IRA

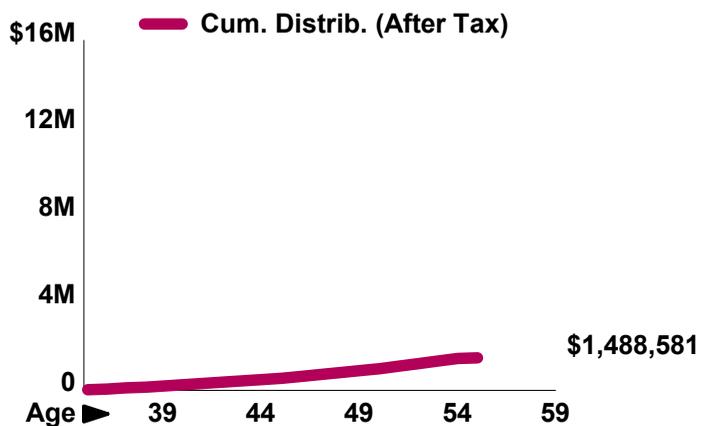
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Comparison Analysis

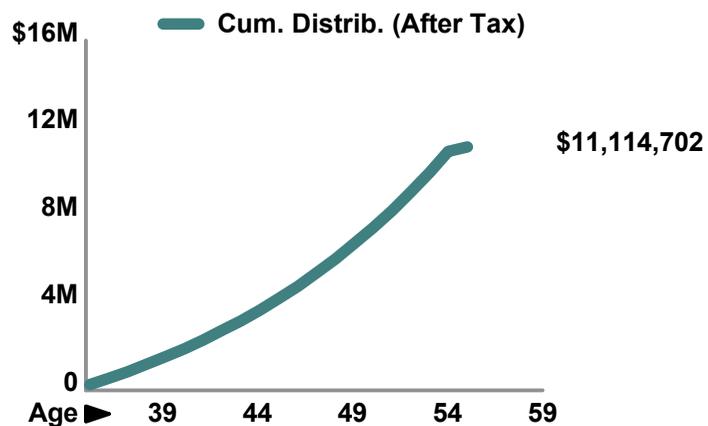
Inherited IRA

Cumulative Distributions
(After Tax)

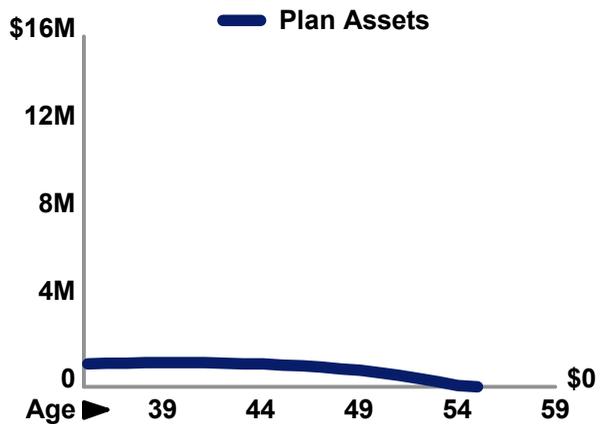


Inherited Roth IRA

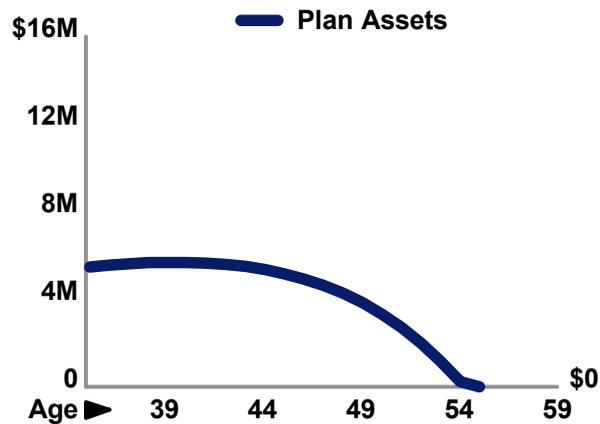
Cumulative Distributions
(After Tax)



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

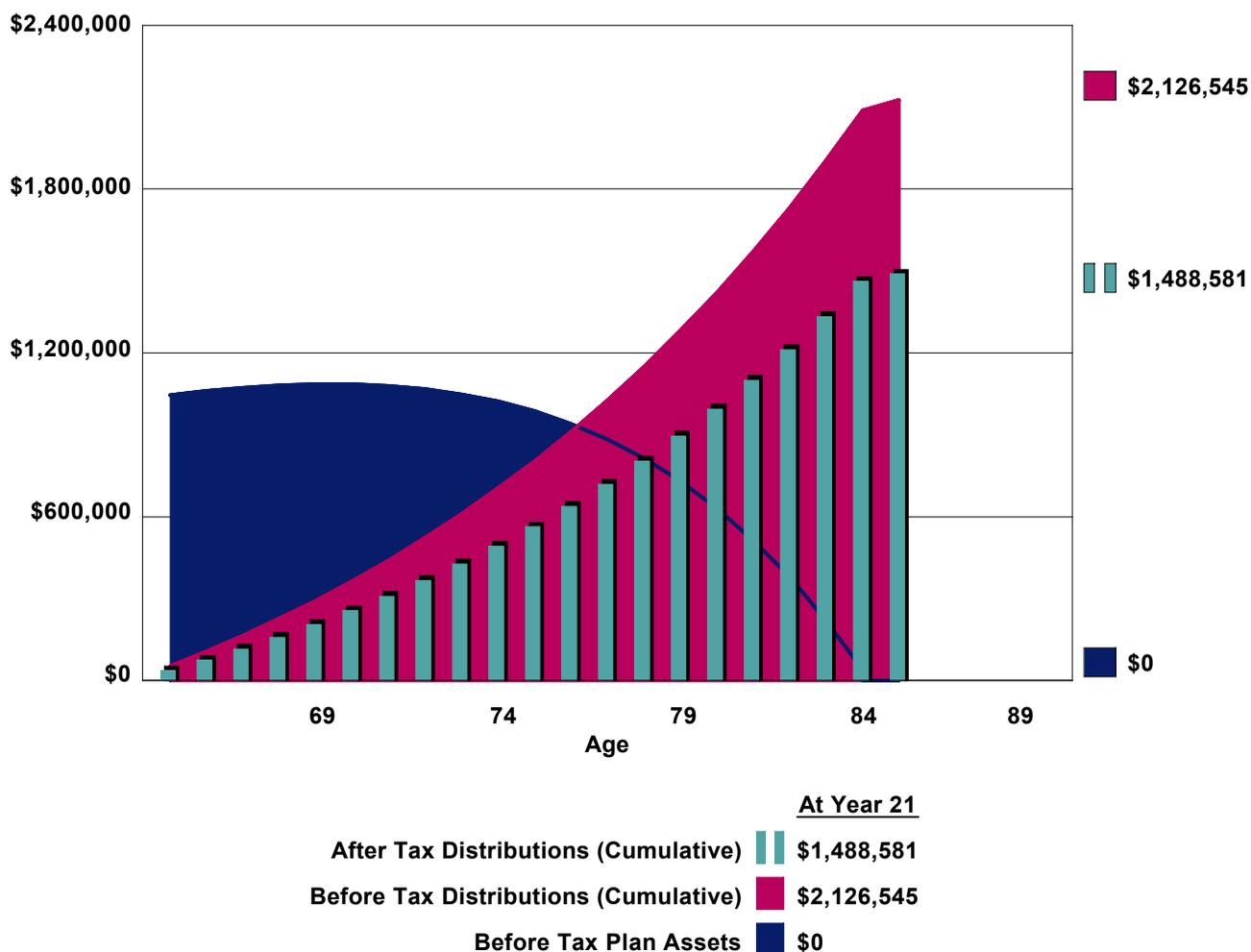
Distributions in excess of any cost basis are subject

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

		Assumed Value 1,028,413	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	(8) After Tax Buying Power of Distributions in Today's Dollars**
1	65	1,028,413	50,912	50,912	50,912	15,274	35,638	1,045,926	35,638
2	66	1,045,926	54,475	54,475	54,475	16,343	38,133	1,060,853	37,022
3	67	1,060,853	58,289	58,289	58,289	17,487	40,802	1,072,743	38,460
4	68	1,072,743	62,369	62,369	62,369	18,711	43,658	1,081,100	39,954
5	69	1,081,100	66,735	66,735	66,735	20,021	46,715	1,085,371	41,505
6	70	1,085,371	71,406	71,406	71,406	21,422	49,984	1,084,942	43,117
7	71	1,084,942	76,404	76,404	76,404	22,921	53,483	1,079,136	44,791
8	72	1,079,136	81,753	81,753	81,753	24,526	57,227	1,067,200	46,531
9	73	1,067,200	87,475	87,475	87,475	26,243	61,233	1,048,306	48,338
10	74	1,048,306	93,599	93,599	93,599	28,080	65,519	1,021,536	50,215
11	75	1,021,536	100,151	100,151	100,151	30,045	70,106	985,882	52,165
12	76	985,882	107,161	107,161	107,161	32,148	75,013	940,232	54,191
13	77	940,232	114,662	114,662	114,662	34,399	80,263	883,359	56,295
14	78	883,359	122,689	122,689	122,689	36,807	85,882	813,917	58,482
15	79	813,917	131,277	131,277	131,277	39,383	91,894	730,425	60,753
16	80	730,425	140,466	140,466	140,466	42,140	98,326	631,256	63,112
17	81	631,256	150,299	150,299	150,299	45,090	105,209	514,624	65,563
18	82	514,624	160,820	160,820	160,820	48,246	112,574	378,571	68,109
19	83	378,571	172,078	172,078	172,078	51,623	120,455	220,947	70,754
20	84	220,947	184,123	184,123	184,123	55,237	128,886	39,402	73,502
21	85	39,402	39,402	39,402	39,402	11,821	27,581	0	15,271
			2,126,545	2,126,545	2,126,545	637,967	1,488,581		1,063,768

Inherited IRA Plan assets were assumed inherited with a value of \$1,028,413.

**Values reflect today's dollars assuming 3.00% inflation.

*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.

Summary Analysis at age 85



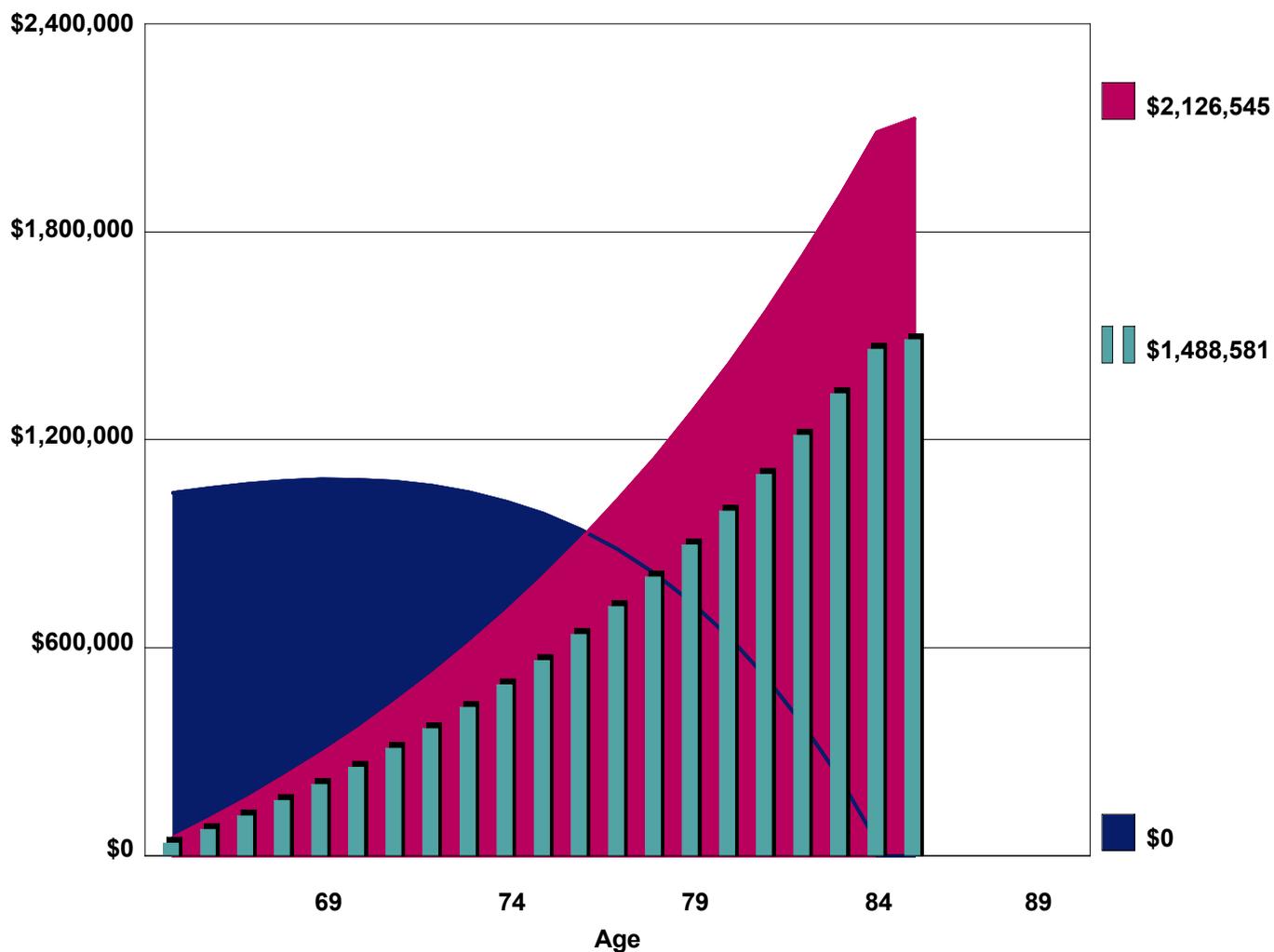
Note: All projections are based on client furnished data and assumptions.

Inherited IRA

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Distribution Summary



At Year 21

After Tax Distributions (Cumulative)	\$1,488,581
Before Tax Distributions (Cumulative)	\$2,126,545
Before Tax Plan Assets	\$0

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

Inherited Roth IRA

Preface

An inherited Roth 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.

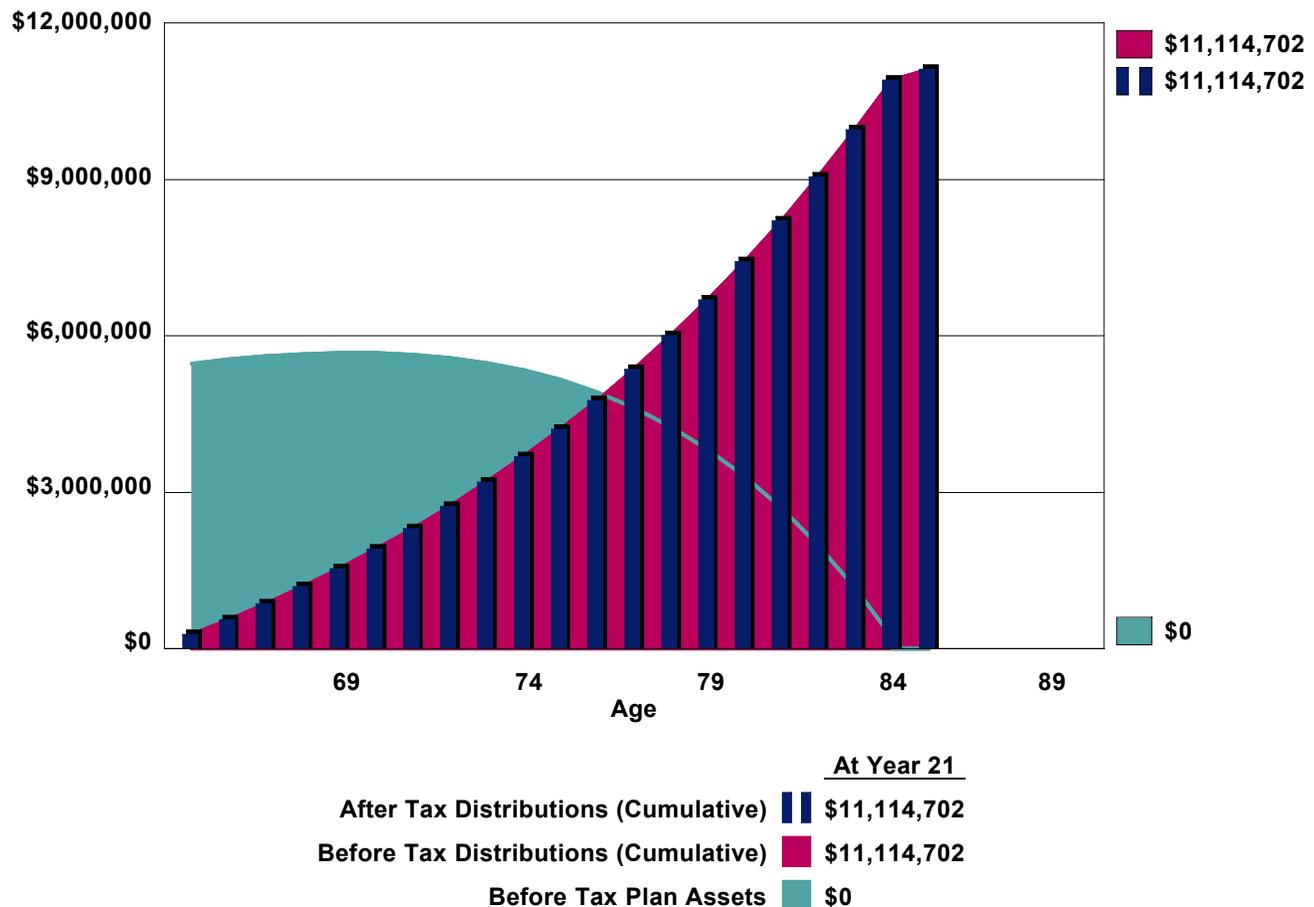
Tax Free Distributions

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

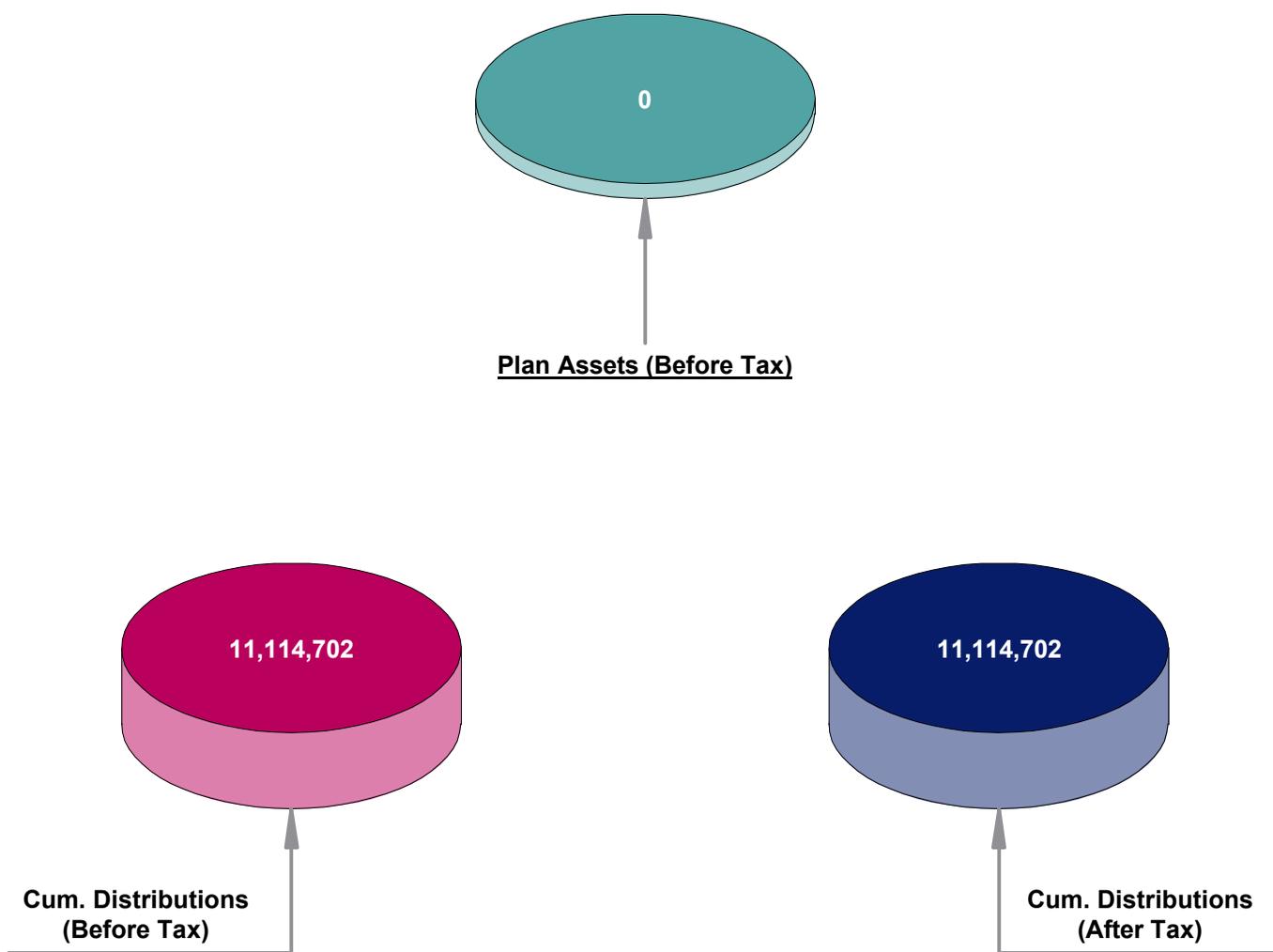
		Assumed Value 5,375,151		Plan Yield 7.00%			
Year	Age	(1) Beginning of Year Balance in Plan Assets	(2) Before Tax IRS Required Minimum Distribution*	(3) Before Tax Scheduled Distribution	(4) After Tax Income from Scheduled Distribution	(5) Year End Plan Assets	(6) After Tax Buying Power of Distributions In Today's Dollars**
1	65	5,375,151	266,097	266,097	266,097	5,466,688	266,097
2	66	5,466,688	284,723	284,723	284,723	5,544,702	276,430
3	67	5,544,702	304,654	304,654	304,654	5,606,852	287,166
4	68	5,606,852	325,980	325,980	325,980	5,650,533	298,318
5	69	5,650,533	348,798	348,798	348,798	5,672,856	309,903
6	70	5,672,856	373,214	373,214	373,214	5,670,617	321,938
7	71	5,670,617	399,339	399,339	399,339	5,640,268	334,440
8	72	5,640,268	427,293	427,293	427,293	5,577,883	347,428
9	73	5,577,883	457,204	457,204	457,204	5,479,126	360,921
10	74	5,479,126	489,208	489,208	489,208	5,339,213	374,937
11	75	5,339,213	523,452	523,452	523,452	5,152,864	389,497
12	76	5,152,864	560,094	560,094	560,094	4,914,264	404,624
13	77	4,914,264	599,300	599,300	599,300	4,617,011	420,337
14	78	4,617,011	641,252	641,252	641,252	4,254,062	436,661
15	79	4,254,062	686,139	686,139	686,139	3,817,678	453,619
16	80	3,817,678	734,169	734,169	734,169	3,299,355	471,235
17	81	3,299,355	785,561	785,561	785,561	2,689,759	489,536
18	82	2,689,759	840,550	840,550	840,550	1,978,654	508,547
19	83	1,978,654	899,388	899,388	899,388	1,154,814	528,296
20	84	1,154,814	962,345	962,345	962,345	205,942	548,812
21	85	205,942	205,942	205,942	205,942	0	114,025
			<hr/>	<hr/>	<hr/>		<hr/>
			11,114,702	11,114,702	11,114,702		7,942,767

**Values reflect today's dollars assuming 3.00% inflation.

*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.

Summary Analysis at age 85



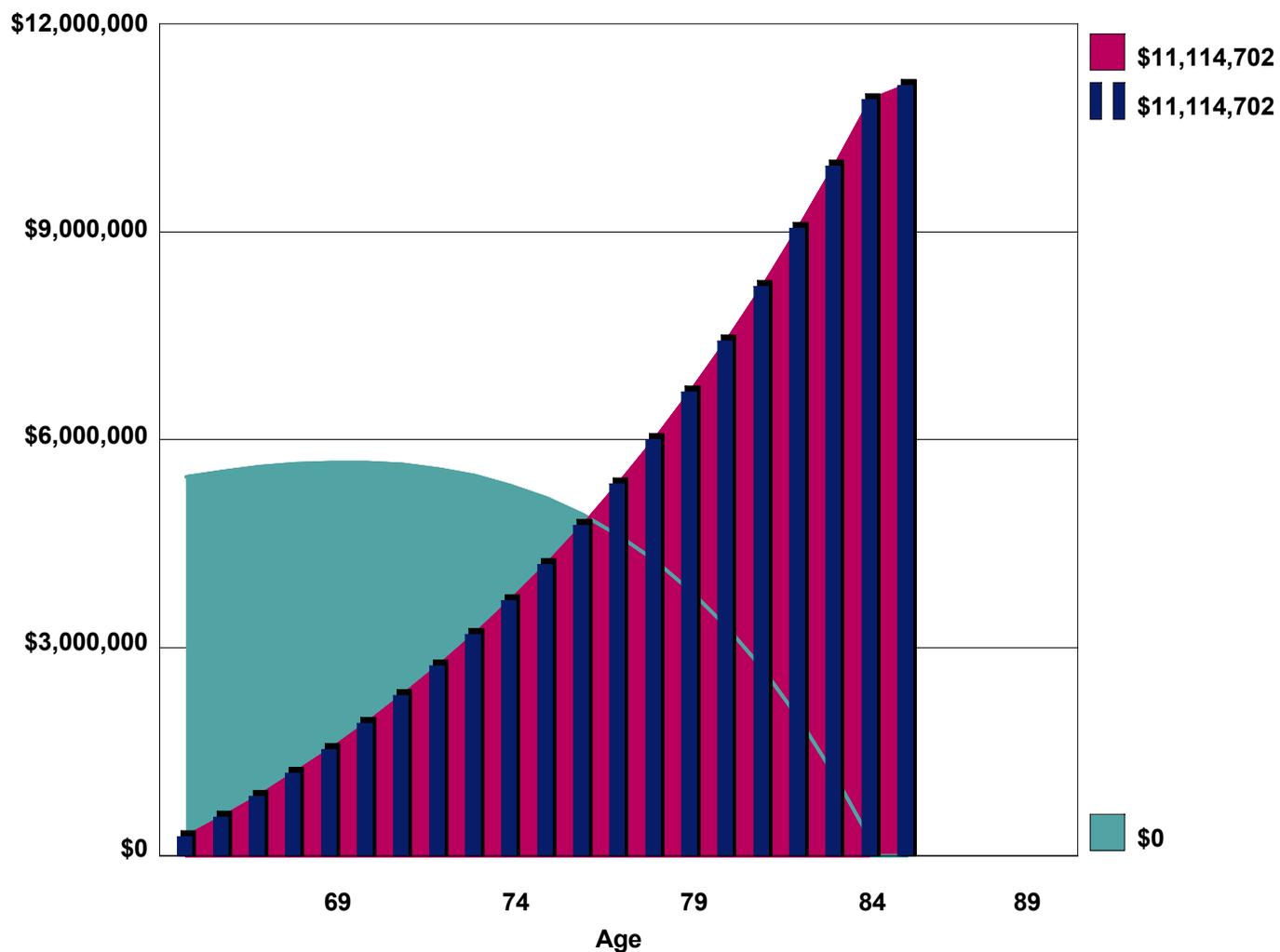
Note: All projections are based on client furnished data and assumptions.

Inherited Roth IRA

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Distribution Summary



At Year 21

After Tax Distributions (Cumulative) \$11,114,702

Before Tax Distributions (Cumulative) \$11,114,702

Before Tax Plan Assets \$0

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