

# Inherited IRA vs. Inherited Roth IRA

## 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.

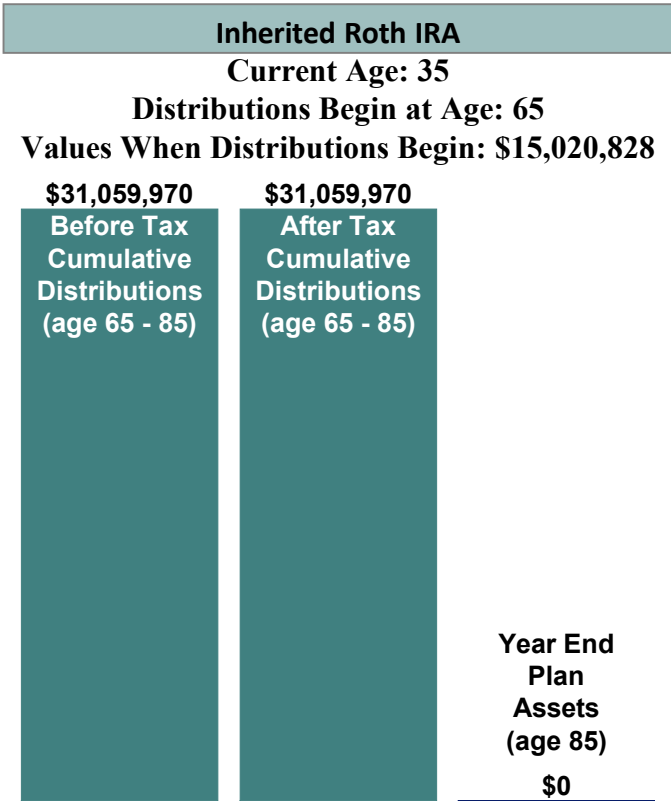
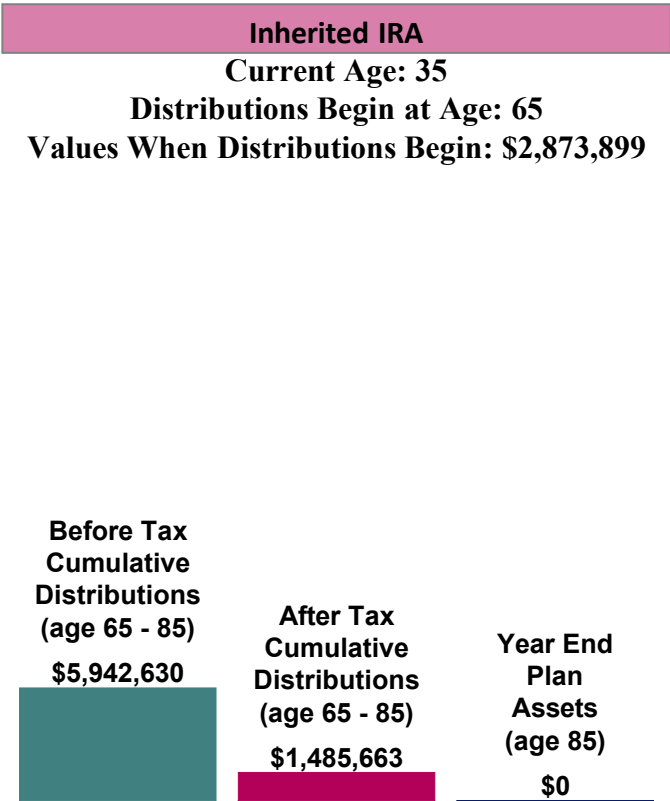
### Children

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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For: Erin O'Neill

## Inherited IRA vs. Inherited Roth IRA

		Plan Yield 7.00%					Beneficiary's Income Tax Bracket 75.00%				
		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	2,873,899	142,272	142,272	35,568	2,922,841	15,020,828	743,605	743,605	743,605	15,276,629
2	66	2,922,841	152,231	152,231	38,058	2,964,553	15,276,629	795,658	795,658	795,658	15,494,639
3	67	2,964,553	162,888	162,888	40,722	2,997,781	15,494,639	851,354	851,354	851,354	15,668,314
4	68	2,997,781	174,290	174,290	43,573	3,021,135	15,668,314	910,949	910,949	910,949	15,790,381
5	69	3,021,135	186,490	186,490	46,623	3,033,071	15,790,381	974,715	974,715	974,715	15,852,763
6	70	3,033,071	199,544	199,544	49,886	3,031,874	15,852,763	1,042,945	1,042,945	1,042,945	15,846,505
7	71	3,031,874	213,512	213,512	53,378	3,015,647	15,846,505	1,115,951	1,115,951	1,115,951	15,761,693
8	72	3,015,647	228,458	228,458	57,115	2,982,292	15,761,693	1,194,068	1,194,068	1,194,068	15,587,358
9	73	2,982,292	244,450	244,450	61,113	2,929,491	15,587,358	1,277,652	1,277,652	1,277,652	15,311,386
10	74	2,929,491	261,562	261,562	65,391	2,854,684	15,311,386	1,367,088	1,367,088	1,367,088	14,920,399
11	75	2,854,684	279,871	279,871	69,968	2,755,050	14,920,399	1,462,784	1,462,784	1,462,784	14,399,648
12	76	2,755,050	299,462	299,462	74,866	2,627,479	14,399,648	1,565,179	1,565,179	1,565,179	13,732,882
13	77	2,627,479	320,424	320,424	80,106	2,468,549	13,732,882	1,674,742	1,674,742	1,674,742	12,902,209
14	78	2,468,549	342,854	342,854	85,714	2,274,494	12,902,209	1,791,974	1,791,974	1,791,974	11,887,952
15	79	2,274,494	366,854	366,854	91,714	2,041,174	11,887,952	1,917,412	1,917,412	1,917,412	10,668,478
16	80	2,041,174	392,534	392,534	98,134	1,764,045	10,668,478	2,051,630	2,051,630	2,051,630	9,220,027
17	81	1,764,045	420,011	420,011	105,003	1,438,117	9,220,027	2,195,245	2,195,245	2,195,245	7,516,517
18	82	1,438,117	449,411	449,411	112,353	1,057,915	7,516,517	2,348,911	2,348,911	2,348,911	5,529,338
19	83	1,057,915	480,870	480,870	120,218	617,438	5,529,338	2,513,335	2,513,335	2,513,335	3,227,123
20	84	617,438	514,532	514,532	128,633	110,110	3,227,123	2,689,269	2,689,269	2,689,269	575,504
21	85	110,110	110,110	110,110	27,527	0	575,504	575,504	575,504	575,504	0
			5,942,630	5,942,630	1,485,663			31,059,970	31,059,970	31,059,970	

\*\*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	1,485,663	31,059,970

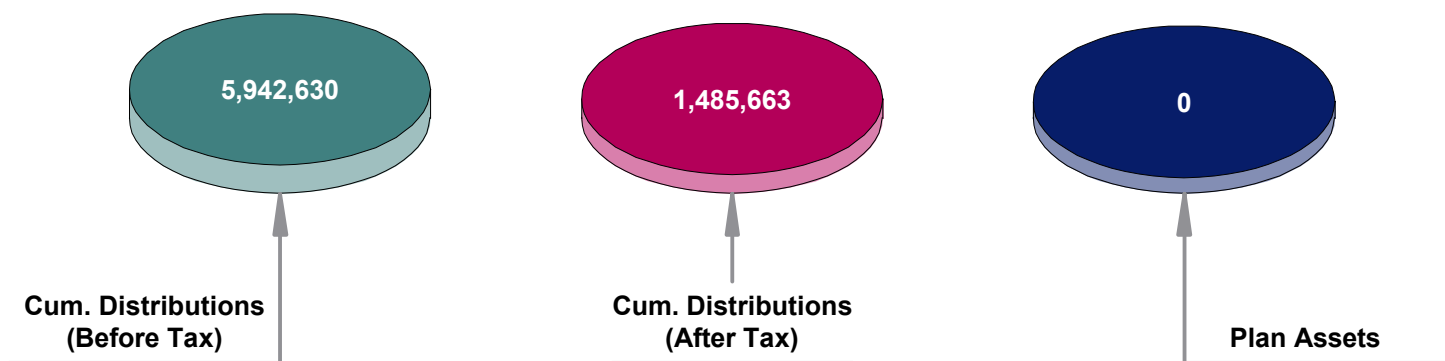
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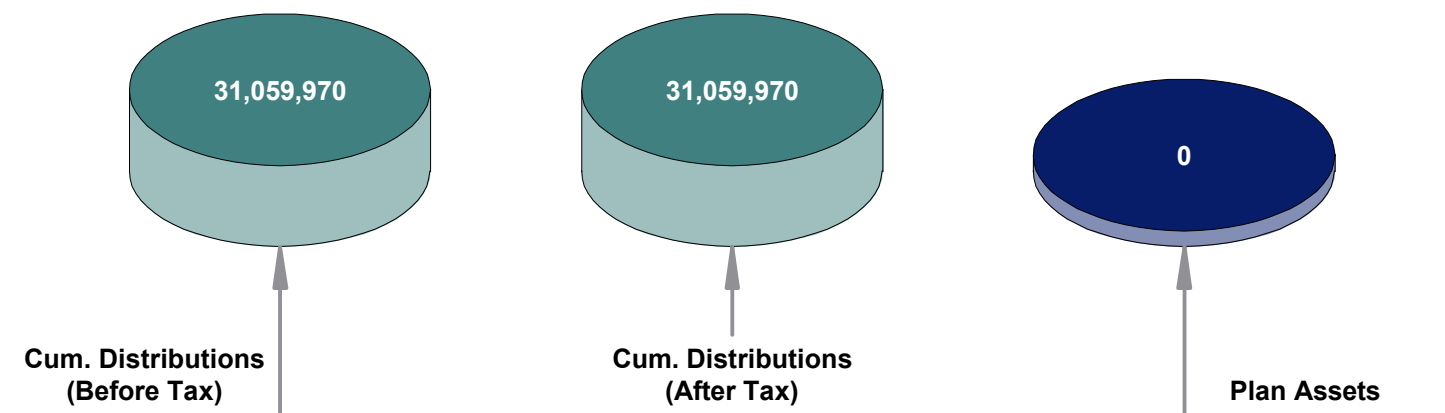
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## Summary Analysis at age 85

### Inherited IRA



### Inherited Roth IRA



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

# Inherited IRA vs. Inherited Roth IRA

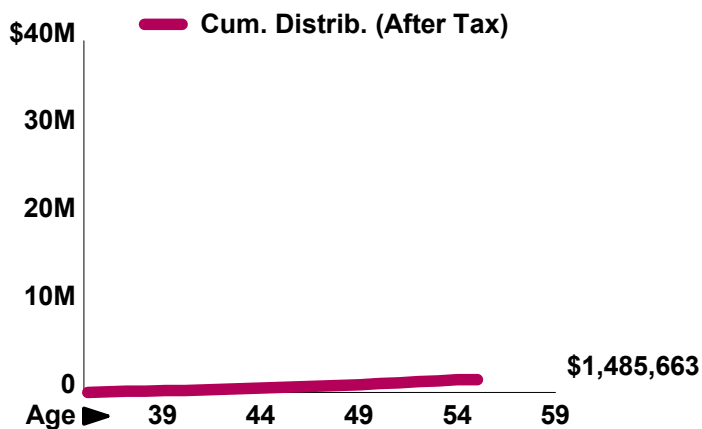
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## Comparison Analysis

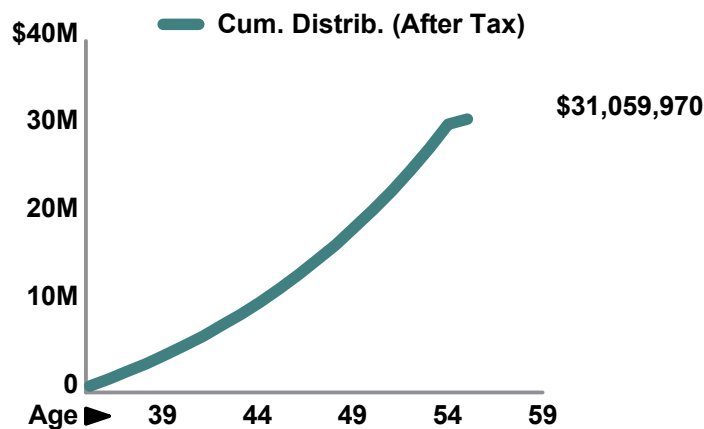
### Inherited IRA

Cumulative Distributions  
(After Tax)

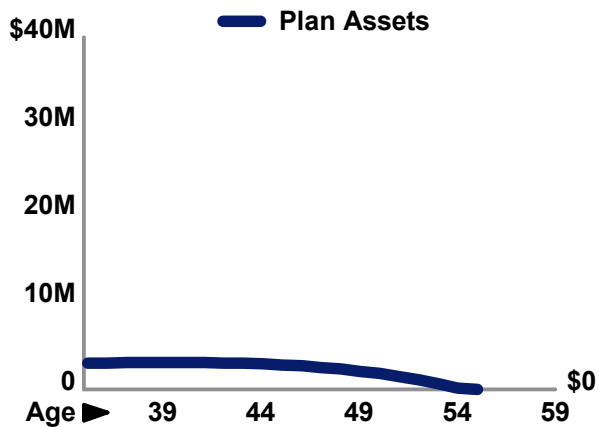


### Inherited Roth IRA

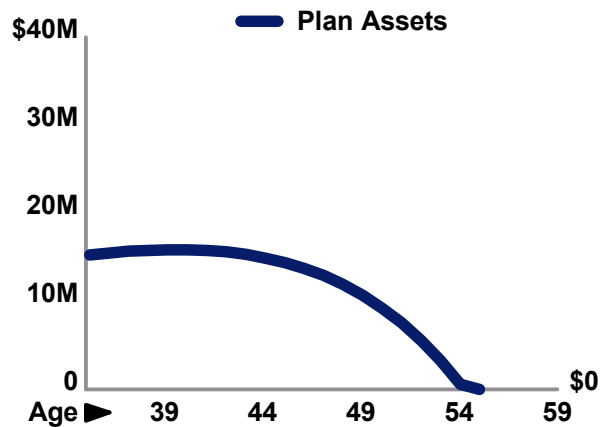
Cumulative Distributions  
(After Tax)



Plan Assets



Plan Assets



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