



# Qualified Plan Analysis

A Multigenerational Approach to Maximizing Your Roth IRA

## **Steve Roth and Lilly Roth**

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For Evaluation Purposes Only  
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# Important Notes

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**This illustration is designed to show the concept of converting a Traditional IRA to a Roth IRA, and more importantly, to consider the tax implications of a Roth IRA conversion.** These pages depict certain wealth preservation strategies concerning possible methods for taking distributions from your qualified retirement plan. For purposes of this analysis, several of your qualified retirement plans may be aggregated and shown as one single plan. This report provides only broad, general guidelines, which may be helpful in shaping your thinking about and discussing your wealth preservation needs with your professional advisors. This report provides estimates based on our general understanding of current tax laws. To illustrate the impact of various earnings rates over the projected period, it is important to consider multiple interest rate scenarios, including no growth.

Each scenario shown illustrates your current situation or an alternative scenario and its possible effects on the financial situation you provided. Inclusion of one or more of these scenarios does not constitute a recommendation of that scenario over any other scenario.

Calculations contained in this analysis are estimates only based on the information you provided, such as the value of your assets today, and the rate at which the assets appreciate. The actual values, rates of growth, and tax rates may be significantly different from those illustrated. These assumptions are only a “best guess.” No guarantee can be made regarding values, as all rates are the hypothetical rates you provided. These computations are not a guarantee of future performance of any asset, including insurance or other financial products nor do they take into account fees and charges associated with any investment. If they did, the results would be lower. It is unlikely that any one rate of return will be sustainable over a long period of time.

No legal or accounting advice is being rendered either by this report or through any other oral or written communications. Nothing contained in this report is intended to be used on any tax form or to support any tax deduction. Unless indicated, the tax aspect of the federal Generation-Skipping Transfer Tax (GSTT) is not reflected. The GSTT is similar to an additional level of estate tax on certain transfers to grandchildren, or individuals two or more generations removed from the transferor. State laws vary regarding the distribution of property, and individual circumstances are unique and subject to change. You should discuss all strategies, transfers, and assumptions with your legal and tax advisors.

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law on December 17, 2010 as P.L. 111-312, also known as Tax Act of 2010 in this presentation.

To implement a strategy, it may be necessary to restructure the ownership of property, or change designated beneficiaries before specific will or trust provisions, prepared by the client’s counsel, become effective. The transfer of a life insurance policy may not result in its removal from the estate of the prior owner for three years.

Strategies may be proposed to support the purchase of various products such as insurance and other financial products. When this occurs, additional information about the specific product (including a prospectus, if required, or an insurer provided policy illustration) will be provided for your review.

**IMPORTANT:** The projections or other information generated by this investment analysis tool (Qualified Plan Distribution Analysis) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results.

**IRS CIRCULAR 230 NOTICE:** To ensure compliance with requirements imposed by the IRS, this notice is to inform you that any U. S. federal tax advice contained in this presentation is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed in this presentation.

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# Decisions Regarding Your Roth IRA Account

Determining How Long Distributions Can Be Taken



**Beneficiary Designation—determines who will benefit from your Roth IRA and for how long.**

**It involves:**

- Naming the beneficiary(ies)
- Giving a spouse the ability to roll over to a Roth IRA
- Deciding if and when to split into multiple Roth IRAs

**Your choice of beneficiary determines the life expectancy over which distributions can be taken after your death.**

*The longer the life expectancy, the longer the distribution period*

Proper beneficiary designations may "stretch" distributions for a longer period of time

**Distributions—determine when and how much to take from your Roth IRA.**

- You may take qualified distributions, income and penalty tax free, starting the later of five years after the Roth IRA is established, or attaining age 59½.
- You are not required to take minimum distributions during your (or your spouse's) lifetime.
- Your beneficiaries are required to take minimum distributions from the Roth IRA, according to the same rules as Inherited Traditional IRAs.
- Your beneficiary's life expectancy is determined the year following your death using the Single Life Expectancy Table, and reduced by one every year thereafter.

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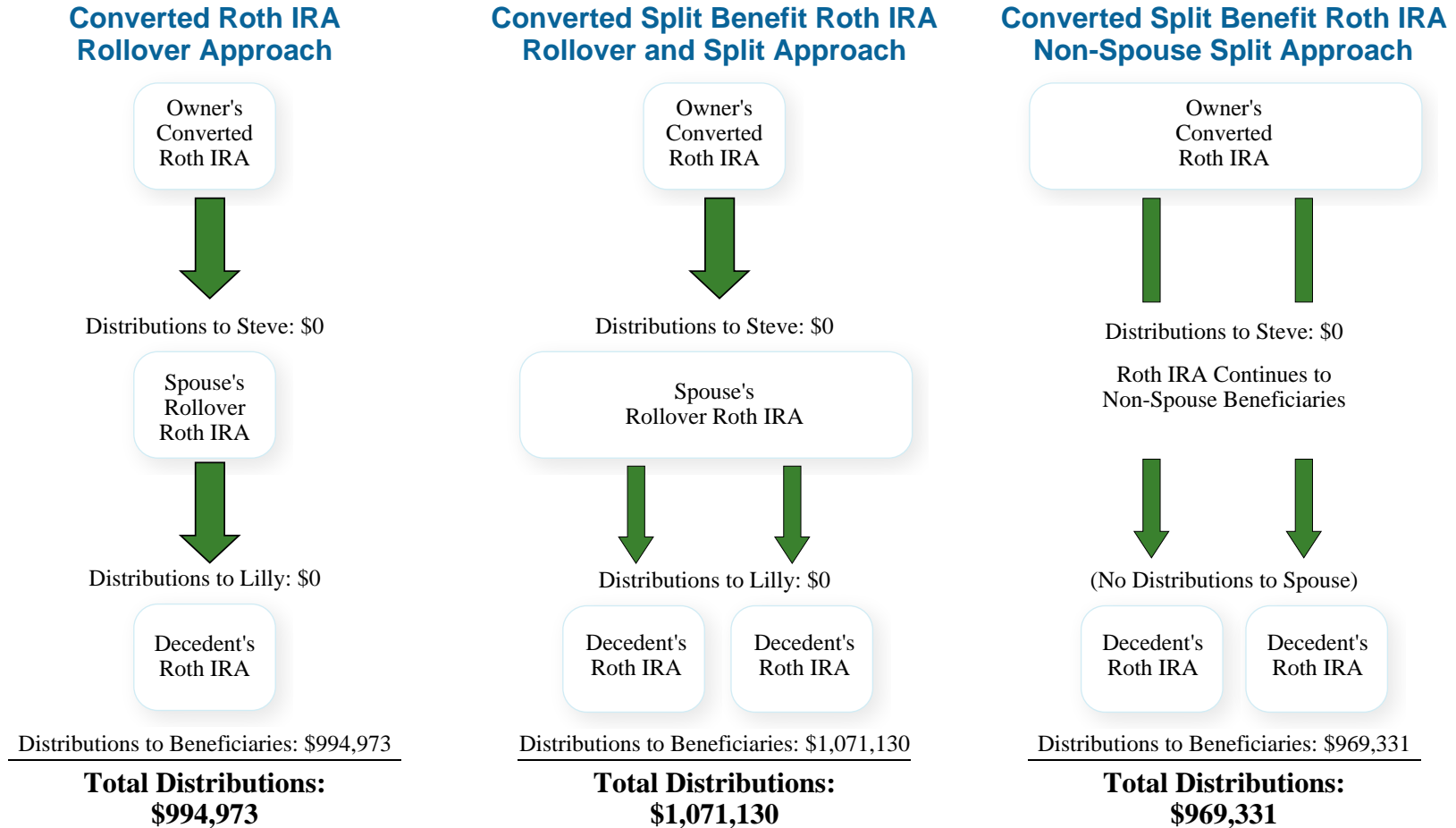
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# Illustration of Multi-Generational Approaches

## Total Distributions Compared

Beginning Account Balance December 31, 2011: \$200,000



NOTE: See Comparing Multi-Generational Approaches for details.

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# Comparing Multi-Generational Approaches

## An Explanation of Different Techniques

### Converted Roth IRA Rollover Approach

- You convert your Traditional IRA to a Roth IRA and name Lilly as your primary beneficiary for this Roth IRA. You take distributions of \$0 during your lifetime and, at your death, Lilly rolls over the Roth IRA.
- Lilly names beneficiaries for the Roth IRA. Lilly's lifetime distributions are \$0.
- At Lilly's death, if the Roth IRA does not split into separate shares, distributions continue to each beneficiary based on the oldest beneficiary's life expectancy. The distributions<sup>1</sup> to the beneficiaries are \$994,973.

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**Total Distributions:  
\$994,973**

### Converted Split Benefit Roth IRA Rollover and Split Approach

- You convert your Traditional IRA to a Roth IRA and name Lilly as your primary beneficiary for this Roth IRA. You take distributions of \$0 during your lifetime and, at your death, Lilly rolls over the Roth IRA.
- Lilly names beneficiaries for the Roth IRA. Lilly's lifetime distributions are \$0.
- At Lilly's death, the Roth IRA is split into separate Roth IRAs with named beneficiaries. Distributions continue to each beneficiary based on his or her life expectancy. The distributions<sup>1</sup> to the beneficiaries are \$1,071,130.

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**Total Distributions:  
\$1,071,130**

### Converted Split Benefit Roth IRA Non-Spouse Split Approach

- You convert your Traditional IRA to a Roth IRA and take distributions of \$0 during your lifetime.
- At your death, the Roth IRA is split into separate Roth IRAs with named beneficiaries. Distributions continue to each beneficiary based on his or her life expectancy. The distributions<sup>1</sup> to the beneficiaries are \$969,331.

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**Total Distributions:  
\$969,331**

<sup>1</sup> Although the intent is to show the beneficiaries stretching the distributions over as many years as possible, each beneficiary could elect to take his or her share in a lump sum. The estimated lump sum available at the spouse's death in the Converted Roth IRA Rollover Approach would be \$436,575 to be split among all named beneficiaries. The estimated lump sum available at the spouse's death in the Converted Split Benefit Roth IRA Rollover and Split Approach would be \$436,575 to be split among all named beneficiaries. The estimated lump sum available at the owner's death in the Converted Split Benefit Roth IRA Non-Spouse Split Approach would be \$342,068 to be split among all named beneficiaries.

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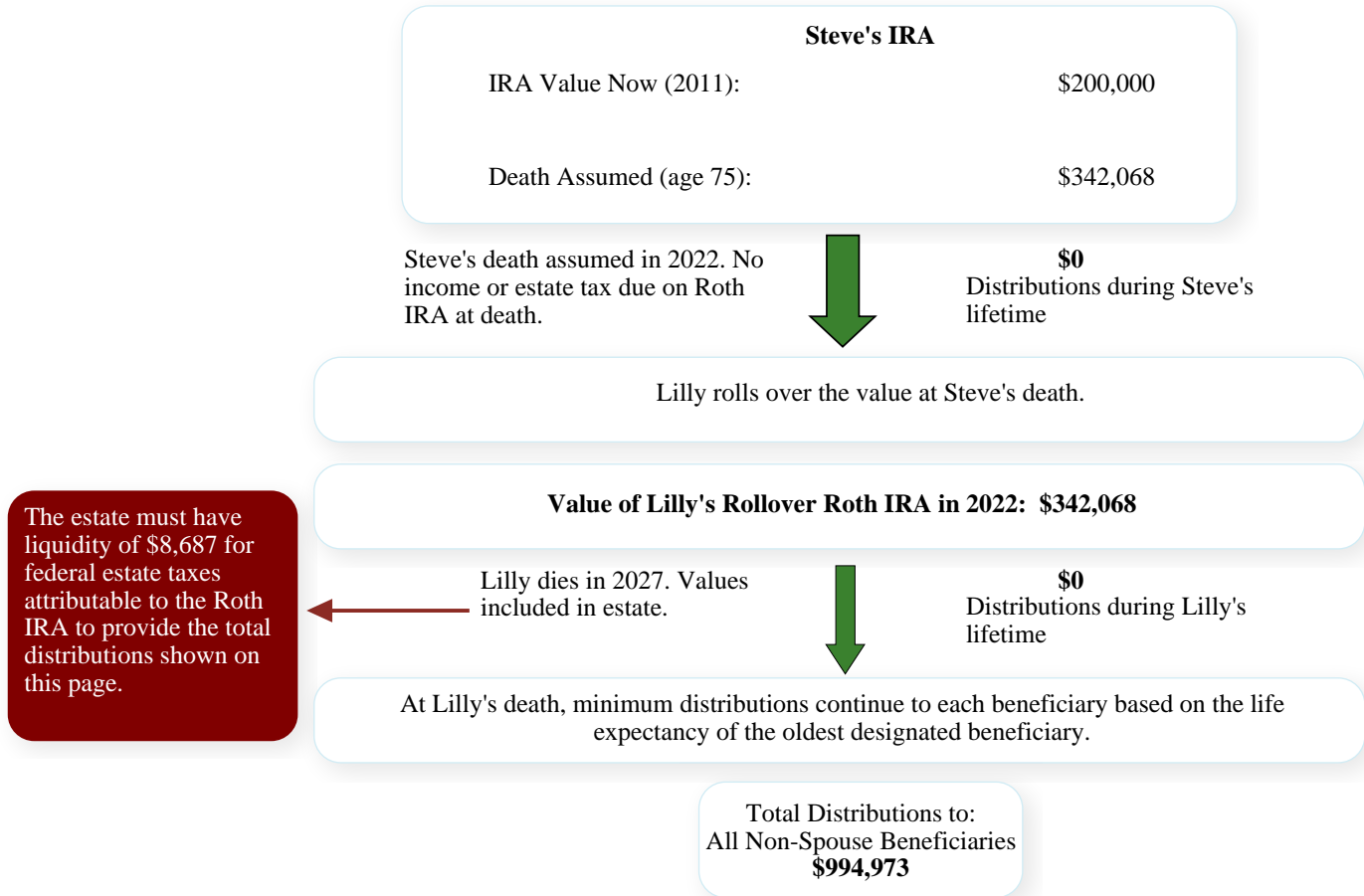
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# Converted Roth IRA—Roth IRA Rollover Approach

A Multi-Generational Approach for Continuing Distributions



The estate must have liquidity of \$8,687 for federal estate taxes attributable to the Roth IRA to provide the total distributions shown on this page.

**Total distributions during lives of Steve, Lilly and beneficiaries: \$994,973**

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# Converted Roth IRA—Roth IRA Rollover Approach

## A Multi-Generational Approach for Continuing Distributions

Beginning Account Balance December 31, 2011: \$200,000

Year	Client Age	Spouse Age	Life, Exp. <sup>1</sup>	Earnings & Contributions <sup>2</sup>	Actual Distributions <sup>3</sup>	Allocation of Distributions				Total of All Other Assets <sup>6</sup>	Roth Account Balance
						Income Taxes Paid <sup>4</sup>	Prem. & Non-Prem. Gifts	Spending	Reinvested Distributions <sup>5</sup>		
2012	65	64		210,000	0	0	0	0	0	510,500	210,000
2013	66	65		10,500	0	60,736	0	0	-60,736	459,316	220,500
2014	67	66		11,025	0	0	0	0	0	468,962	231,525
2015	68	67		11,576	0	0	0	0	0	478,810	243,101
2016	69	68		12,155	0	0	0	0	0	488,865	255,256
2017	70	69		12,763	0	0	0	0	0	499,131	268,019
2018	71	70		13,401	0	0	0	0	0	509,613	281,420
2019	72	71		14,071	0	0	0	0	0	520,315	295,491
2020	73	72		14,775	0	0	0	0	0	531,241	310,266
2021	74	73		15,513	0	0	0	0	0	542,397	325,779
2022	75	74		16,289	0	0	0	0	0	553,788	342,068

Steve dies and Lilly rolls over the Roth IRA. Total distributions during Steve's lifetime are \$0.

<sup>1</sup> Steve's death is assumed to occur in 2022. Lilly is named beneficiary. For Traditional IRA, 403(b) or other Qualified Plans, Steve takes required minimum distributions (RMDs) at age 70½ and calculates life expectancy annually based on the Uniform Lifetime Table. After conversion to Roth IRA, Steve no longer takes RMDs.

<sup>2</sup> Assumes qualified plan earns 5.00% interest. Also includes contributions, if any. After Roth Conversion, also includes amount converted to Roth IRA.

<sup>3</sup> For Traditional IRA, 403(b) or other Qualified Plans, Actual Distributions is the greater of distribution required to generate the Desired Distribution (see Assumptions pages) or RMD. After conversion to Roth IRA, distributions are assumed to be made from Other Assets during the 5 year holding period after Roth conversion.

<sup>4</sup> Taxes and any applicable penalties are paid at the start of the calendar year following the tax liability. Distributions from Traditional IRA, 403(b) or other Qualified Plans are taxable and distributions from Roth IRA are assumed to be income tax-free. See the Assumptions pages for information on distributions from a Traditional IRA with an original after-tax amount of \$0. After Roth Conversion, includes the estimated income taxes on the Traditional IRA taxable amount converted to Roth IRA, except for any after-tax amount.

<sup>5</sup> Actual Distributions less Taxes and Penalties, Premium and Non-Premium Gifts and Spending. After Roth conversion, Other Assets are used to the extent possible to pay the income taxes on Traditional IRA taxable amounts converted to Roth IRA.

<sup>6</sup> All Other Assets and Cumulative Reinvested Distributions are assumed to earn 3.00% interest and are taxed at a 30.00% income tax rate. Does not include the death benefit of life insurance.

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# Converted Roth IRA—Roth IRA Rollover Approach (Continued)

## A Multi-Generational Approach for Continuing Distributions

Year	Spouse Age	Life Exp. <sup>1</sup>	Earnings & Contributions <sup>2</sup>	Actual Distributions <sup>3</sup>	Income Taxes Paid <sup>4</sup>	Allocation of Distributions			Total of All Other Assets <sup>6</sup>	Roth Account Balance
						Non-Prem. Gifts	Spending	Reinvested Distributions <sup>5</sup>		
2023	75		17,103	0	0	0	0	0	565,417	359,171
2024	76		17,959	0	0	0	0	0	577,291	377,130
2025	77		18,856	0	0	0	0	0	589,414	395,986
2026	78		19,799	0	0	0	0	0	601,792	415,786
2027	79		20,789	0	0	0	0	0	614,429	436,575

Total distributions during Lilly's lifetime are \$0. At Lilly's death, the Roth IRA is distributed to the named beneficiaries. Estate taxes of \$8,687 will be due on these amounts.

<sup>1</sup> Steve's death is assumed to occur in 2022. Lilly is named beneficiary. For Traditional IRA, 403(b) or other Qualified Plans, Steve takes required minimum distributions (RMDs) at age 70½ and calculates life expectancy annually based on the Uniform Lifetime Table. After conversion to Roth IRA, Steve no longer takes RMDs.

<sup>2</sup> Assumes qualified plan earns 5.00% interest. Also includes contributions, if any. After Roth Conversion, also includes amount converted to Roth IRA.

<sup>3</sup> For Traditional IRA, 403(b) or other Qualified Plans, Actual Distributions is the greater of distribution required to generate the Desired Distribution (see Assumptions pages) or RMD. After conversion to Roth IRA, distributions are assumed to be made from Other Assets during the 5 year holding period after Roth conversion.

<sup>4</sup> Taxes and any applicable penalties are paid at the start of the calendar year following the tax liability. Distributions from Traditional IRA, 403(b) or other Qualified Plans are taxable and distributions from Roth IRA are assumed to be income tax-free. See the Assumptions pages for information on distributions from a Traditional IRA with an original after-tax amount of \$0. After Roth Conversion, includes the estimated income taxes on the Traditional IRA taxable amount converted to Roth IRA, except for any after-tax amount.

<sup>5</sup> Actual Distributions less Taxes and Penalties, Premium and Non-Premium Gifts and Spending. After Roth conversion, Other Assets are used to the extent possible to pay the income taxes on Traditional IRA taxable amounts converted to Roth IRA.

<sup>6</sup> All Other Assets and Cumulative Reinvested Distributions are assumed to earn 3.00% interest and are taxed at a 30.00% income tax rate. Does not include the death benefit of life insurance.

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# Converted Roth IRA—Roth IRA Rollover Approach

## Next Generation after Lilly's Death

*Account Balance: \$436,575*

Year	Age	Life Exp. <sup>1</sup>	Actual Distributions <sup>2</sup>	Account Balance <sup>3</sup>
2028	56	28.7	15,212	443,192
2029	57	27.7	16,000	449,352
2030	58	26.7	16,830	454,990
2031	59	25.7	17,704	460,035
2032	60	24.7	18,625	464,412
2033	61	23.7	19,595	468,037
2034	62	22.7	20,618	470,821
2035	63	21.7	21,697	472,665
2036	64	20.7	22,834	473,464
2037	65	19.7	24,034	473,104
2038	66	18.7	25,300	471,459
2039	67	17.7	26,636	468,396
2040	68	16.7	28,048	463,768
2041	69	15.7	29,539	457,417
2042	70	14.7	31,117	449,171
2043	71	13.7	32,786	438,844
2044	72	12.7	34,555	426,231
2045	73	11.7	36,430	411,113
2046	74	10.7	38,422	393,247
2047	75	9.7	40,541	372,368
2048	76	8.7	42,801	348,186
2049	77	7.7	45,219	320,376
2050	78	6.7	47,817	288,577
2051	79	5.7	50,628	252,379
2052	80	4.7	53,698	211,300
2053	81	3.7	57,108	164,757
2054	82	2.7	61,021	111,974
2055	83	1.7	65,867	51,706
2056	84	0.7	54,291	0
<b>Total:</b>			<b>\$994,973</b>	

<sup>1</sup> Calculated on December 31 of the year following death and reduced by one each year thereafter.

<sup>2</sup> Distributions from Roth IRA are assumed to be income tax-free.

<sup>3</sup> Assumes qualified plan earns 5.00% interest.

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# Converted Roth IRA—Roth IRA Rollover Approach

## Wealth Transfer Costs

Beginning Account Balance December 31, 2011: \$200,000

Year	Client Age	Spouse Age	Roth Account Balance	Other Assets <sup>1</sup>
2012	65	64	210,000	510,500
2013	66	65	220,500	459,316
2014	67	66	231,525	468,962
2015	68	67	243,101	478,810
2016	69	68	255,256	488,865
2017	70	69	268,019	499,131
2018	71	70	281,420	509,613
2019	72	71	295,491	520,315
2020	73	72	310,266	531,241
2021	74	73	325,779	542,397
2022	75	74	342,068	553,788

Lilly rolls over the Roth IRA at Steve's death in 2022. Total distributions during Steve's lifetime are \$0.

Year	Spouse Age	Roth Account Balance	Other Assets <sup>1</sup>
2023	75	359,171	565,417
2024	76	377,130	577,291
2025	77	395,986	589,414
2026	78	415,786	601,792
2027	79	436,575	614,429

At Lilly's death, the Roth IRA is distributed to the named beneficiaries. Estate taxes of \$8,687 will be due on these amounts.<sup>3</sup>

## Continuation of this analysis assumes that Lilly's estate has sufficient cash liquidity for all transfer costs without using this Roth IRA.

### Steve's Death Occurs in Year 2022

Total of Other Assets <sup>1</sup>	\$553,788
Life insurance on Steve inside of estate <sup>2</sup>	\$0
Estimated Account Balance	\$342,068
Estimated share of estate taxes <sup>3</sup>	\$0
<b>Liquidity needed to continue this approach</b>	<b>\$0</b>
Existing life insurance on Steve outside of estate <sup>4</sup>	\$0
Proposed new life insurance outside of estate <sup>4</sup>	\$0

### Lilly's Death Occurs in Year 2027

Total of Other Assets <sup>1</sup>	\$614,429
Life insurance on Lilly inside of estate <sup>2</sup>	\$0
Estimated Account Balance	\$436,575
Estimated share of estate taxes <sup>3</sup>	\$8,687
<b>Liquidity needed to continue this approach</b>	<b>\$8,687</b>
Existing life insurance on Lilly outside of estate <sup>4</sup>	\$0

<sup>1</sup> Other Assets are assumed to be inherited by the surviving spouse and to qualify for the marital deduction. Other Assets are assumed to earn 3.00% interest and are taxed at a 30.00% income tax rate.

<sup>2</sup> Life insurance included in the deceased's estate is assumed to be added to Other Assets.

<sup>3</sup> Estate tax calculations are based on the total of the Account Balance, the Other Assets, and any Life Insurance included in the estate. No probate fees or expenses are considered. Estimated Share of Estate Taxes is the ratio that the Account Balance bears to the Total Estate. See the Assumptions pages for additional information.

<sup>4</sup> Life insurance outside the deceased's estate is assumed to be paid directly to heirs and will not be in the estate of the surviving spouse.

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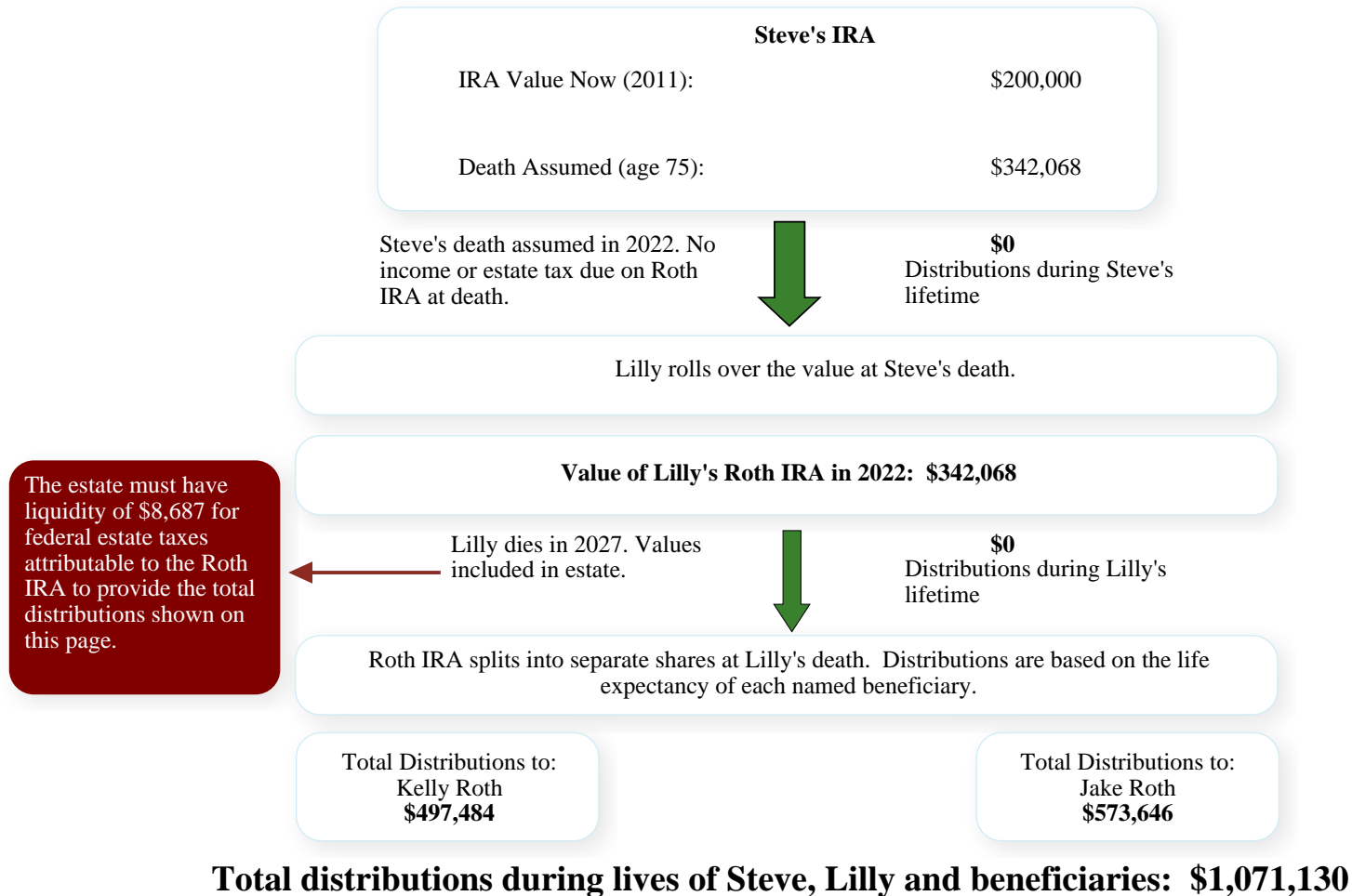
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# The Split Benefit Roth IRA—Rollover to Spouse and Split

A Multi-Generational Approach for Continuing Distributions



The estate must have liquidity of \$8,687 for federal estate taxes attributable to the Roth IRA to provide the total distributions shown on this page.

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# The Split Benefit Roth IRA—Rollover to Spouse and Split

## A Multi-Generational Approach for Continuing Distributions

Beginning Account Balance December 31, 2011: \$200,000

Year	Client Age	Spouse Age	Life Exp. <sup>1</sup>	Earnings & Contributions <sup>2</sup>	Actual Distributions <sup>3</sup>	Allocation of Distributions				Total of All Other Assets <sup>6</sup>	Roth Account Balance
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2016	69	68		12,155	0	0	0	0	0	488,865	255,256
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2020	73	72		14,775	0	0	0	0	0	531,241	310,266
2021	74	73		15,513	0	0	0	0	0	542,397	325,779
2022	75	74		16,289	0	0	0	0	0	553,788	342,068

Steve dies and Lilly rolls over the Roth IRA. Total distributions during Steve's lifetime are \$0.

<sup>1</sup> Steve's death is assumed to occur in 2022. Lilly is named beneficiary. For Traditional IRA, 403(b) or other Qualified Plans, Steve takes required minimum distributions (RMDs) at age 70½ and calculates life expectancy annually based on the Uniform Lifetime Table. After conversion to Roth IRA, Steve no longer takes RMDs.

<sup>2</sup> Assumes qualified plan earns 5.00% interest. Also includes contributions, if any. After Roth Conversion, also includes amount converted to Roth IRA.

<sup>3</sup> For Traditional IRA, 403(b) or other Qualified Plans, Actual Distributions is the greater of distribution required to generate the Desired Distribution (see Assumptions pages) or RMD. After conversion to Roth IRA, distributions are assumed to be made from Other Assets during the 5 year holding period after Roth conversion.

<sup>4</sup> Taxes and any applicable penalties are paid at the start of the calendar year following the tax liability. Distributions from Traditional IRA, 403(b) or other Qualified Plans are taxable and distributions from Roth IRA are assumed to be income tax-free. See the Assumptions pages for information on distributions from a Traditional IRA with an original after-tax amount of \$0. After Roth Conversion, includes the estimated income taxes on the Traditional IRA taxable amount converted to Roth IRA, except for any after-tax amount.

<sup>5</sup> Actual Distributions less Taxes and Penalties, Premium and Non-Premium Gifts and Spending. After Roth conversion, Other Assets are used to the extent possible to pay the income taxes on Traditional IRA taxable amounts converted to Roth IRA.

<sup>6</sup> All Other Assets and Cumulative Reinvested Distributions are assumed to earn 3.00% interest and are taxed at a 30.00% income tax rate. Does not include the death benefit of life insurance.

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# The Split Benefit Roth IRA—Rollover to Spouse and Split

## A Multi-Generational Approach for Continuing Distributions

Year	Spouse Age	Life Exp. <sup>1</sup>	Earnings & Contributions <sup>2</sup>	Actual Distributions <sup>3</sup>	Allocation of Distributions				Total of All Other Assets <sup>6</sup>	Roth Account Balance
					Income Taxes Paid <sup>4</sup>	Prem. & Non-Prem. Gifts	Spending	Reinvested Distributions <sup>5</sup>		
2023	75		17,103	0	0	0	0	0	565,417	359,171
2024	76		17,959	0	0	0	0	0	577,291	377,130
2025	77		18,856	0	0	0	0	0	589,414	395,986
2026	78		19,799	0	0	0	0	0	601,792	415,786
2027	79		20,789	0	0	0	0	0	614,429	436,575

Total distributions during Lilly's lifetime are \$0. At Lilly's death, the Roth IRA is distributed to the named beneficiaries. Estate taxes of \$8,687 will be due on these amounts.

<sup>1</sup> Steve's death is assumed to occur in 2022. Lilly is named beneficiary. For Traditional IRA, 403(b) or other Qualified Plans, Steve takes required minimum distributions (RMDs) at age 70½ and calculates life expectancy annually based on the Uniform Lifetime Table. After conversion to Roth IRA, Steve no longer takes RMDs.

<sup>2</sup> Assumes qualified plan earns 5.00% interest. Also includes contributions, if any. After Roth Conversion, also includes amount converted to Roth IRA.

<sup>3</sup> For Traditional IRA, 403(b) or other Qualified Plans, Actual Distributions is the greater of distribution required to generate the Desired Distribution (see Assumptions pages) or RMD. After conversion to Roth IRA, distributions are assumed to be made from Other Assets during the 5 year holding period after Roth conversion.

<sup>4</sup> Taxes and any applicable penalties are paid at the start of the calendar year following the tax liability. Distributions from Traditional IRA, 403(b) or other Qualified Plans are taxable and distributions from Roth IRA are assumed to be income tax-free. See the Assumptions pages for information on distributions from a Traditional IRA with an original after-tax amount of \$0. After Roth Conversion, includes the estimated income taxes on the Traditional IRA taxable amount converted to Roth IRA, except for any after-tax amount.

<sup>5</sup> Actual Distributions less Taxes and Penalties, Premium and Non-Premium Gifts and Spending. After Roth conversion, Other Assets are used to the extent possible to pay the income taxes on Traditional IRA taxable amounts converted to Roth IRA.

<sup>6</sup> All Other Assets and Cumulative Reinvested Distributions are assumed to earn 3.00% interest and are taxed at a 30.00% income tax rate. Does not include the death benefit of life insurance.

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# The Split Benefit Roth IRA—Rollover to Spouse and Split

Next Generation after Lilly's Death

Year	Account Balance: \$218,287 Kelly Roth				Account Balance: \$218,287 Jake Roth			
	Age	Life Exp. <sup>1</sup>	Actual Distributions <sup>2</sup>	Account Balance <sup>3</sup>	Age	Life Exp. <sup>1</sup>	Actual Distributions <sup>2</sup>	Account Balance <sup>3</sup>
2028	56	28.7	7,606	221,596	51	33.3	6,555	222,647
2029	57	27.7	8,000	224,676	52	32.3	6,893	226,886
2030	58	26.7	8,415	227,495	53	31.3	7,249	230,981
2031	59	25.7	8,852	230,018	54	30.3	7,623	234,907
2032	60	24.7	9,312	232,206	55	29.3	8,017	238,635
2033	61	23.7	9,798	234,019	56	28.3	8,432	242,135
2034	62	22.7	10,309	235,410	57	27.3	8,869	245,372
2035	63	21.7	10,848	236,333	58	26.3	9,330	248,311
2036	64	20.7	11,417	236,732	59	25.3	9,815	250,912
2037	65	19.7	12,017	236,552	60	24.3	10,326	253,132
2038	66	18.7	12,650	235,730	61	23.3	10,864	254,924
2039	67	17.7	13,318	234,198	62	22.3	11,432	256,239
2040	68	16.7	14,024	231,884	63	21.3	12,030	257,021
2041	69	15.7	14,770	228,709	64	20.3	12,661	257,211
2042	70	14.7	15,558	224,586	65	19.3	13,327	256,745
2043	71	13.7	16,393	219,422	66	18.3	14,030	255,552
2044	72	12.7	17,277	213,116	67	17.3	14,772	253,558
2045	73	11.7	18,215	205,556	68	16.3	15,556	250,680
2046	74	10.7	19,211	196,623	69	15.3	16,384	246,830
2047	75	9.7	20,270	186,184	70	14.3	17,261	241,910
2048	76	8.7	21,400	174,093	71	13.3	18,189	235,817
2049	77	7.7	22,609	160,188	72	12.3	19,172	228,436
2050	78	6.7	23,909	144,289	73	11.3	20,216	219,642
2051	79	5.7	25,314	126,189	74	10.3	21,324	209,300
2052	80	4.7	26,849	105,650	75	9.3	22,505	197,259

<sup>1</sup> Calculated on December 31 of the year following death and reduced by one each year thereafter.

<sup>2</sup> Distributions from Roth IRA are assumed to be income tax-free.

<sup>3</sup> Assumes qualified plan earns 5.00% interest.

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# The Split Benefit Roth IRA—Rollover to Spouse and Split

Next Generation after Lilly's Death

Year	Kelly Roth				Jake Roth			
	Age	Life Exp. <sup>1</sup>	Actual Distributions <sup>2</sup>	Account Balance <sup>3</sup>	Age	Life Exp. <sup>1</sup>	Actual Distributions <sup>2</sup>	Account Balance <sup>3</sup>
2053	81	3.7	28,554	82,378	76	8.3	23,766	183,356
2054	82	2.7	30,511	55,987	77	7.3	25,117	167,407
2055	83	1.7	32,933	25,853	78	6.3	26,572	149,205
2056	84	0.7	27,145	0	79	5.3	28,152	128,513
<b>Total:</b>			<b>\$497,484</b>		80	4.3	29,887	105,052
					81	3.3	31,834	78,471
					82	2.3	34,118	48,276
					83	1.3	37,136	13,555
					84	0.3	14,232	0
				<b>Total:</b>			<b>\$573,646</b>	

<sup>1</sup> Calculated on December 31 of the year following death and reduced by one each year thereafter.

<sup>2</sup> Distributions from Roth IRA are assumed to be income tax-free.

<sup>3</sup> Assumes qualified plan earns 5.00% interest.

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# The Split Benefit Roth IRA—Rollover to Spouse and Split

## Wealth Transfer Costs

Beginning Account Balance December 31, 2011: \$200,000

Year	Client Age	Spouse Age	Roth Account Balance	Other Assets <sup>1</sup>
2012	65	64	210,000	510,500
2013	66	65	220,500	459,316
2014	67	66	231,525	468,962
2015	68	67	243,101	478,810
2016	69	68	255,256	488,865
2017	70	69	268,019	499,131
2018	71	70	281,420	509,613
2019	72	71	295,491	520,315
2020	73	72	310,266	531,241
2021	74	73	325,779	542,397
2022	75	74	342,068	553,788

Lilly rolls over the Roth IRA at Steve's death in 2022. Total distributions during Steve's lifetime are \$0.

Year	Spouse Age	Roth Account Balance	Other Assets <sup>1</sup>
2023	75	359,171	565,417
2024	76	377,130	577,291
2025	77	395,986	589,414
2026	78	415,786	601,792
2027	79	436,575	614,429

At Lilly's death, the Roth IRA is distributed to the named beneficiaries.

Estate taxes of \$8,687 will be due on these amounts.<sup>3</sup>

**Continuation of this analysis assumes that Lilly's estate has sufficient cash liquidity for all transfer costs without using this Roth IRA.**

### Steve's Death Occurs in Year 2022

Total of Other Assets <sup>1</sup>	\$553,788
Life insurance on Steve inside of estate <sup>2</sup>	\$0
Estimated Account Balance	\$342,068
Estimated share of estate taxes <sup>3</sup>	\$0
<b>Liquidity needed to continue this approach</b>	<b>\$0</b>
Existing life insurance on Steve outside of estate <sup>4</sup>	\$0
Proposed new life insurance outside of estate <sup>4</sup>	\$0

### Lilly's Death Occurs in Year 2027

Total of Other Assets <sup>1</sup>	\$614,429
Life insurance on Lilly inside of estate <sup>2</sup>	\$0
Estimated Account Balance	\$436,575
Estimated share of estate taxes <sup>3</sup>	\$8,687
<b>Liquidity needed to continue this approach</b>	<b>\$8,687</b>
Existing life insurance on Lilly outside of estate <sup>4</sup>	\$0

<sup>1</sup> Other Assets are assumed to be inherited by the surviving spouse and to qualify for the marital deduction. Other Assets are assumed to earn 3.00% interest and are taxed at a 30.00% income tax rate.

<sup>2</sup> Life insurance included in the deceased's estate is assumed to be added to Other Assets.

<sup>3</sup> Estate tax calculations are based on the total of the Account Balance, the Other Assets, and any Life Insurance included in the estate. No probate fees or expenses are considered. Estimated Share of Estate Taxes is the ratio that the Account Balance bears to the Total Estate. See the Assumptions pages for additional information.

<sup>4</sup> Life insurance outside the deceased's estate is assumed to be paid directly to heirs and will not be in the estate of the surviving spouse.

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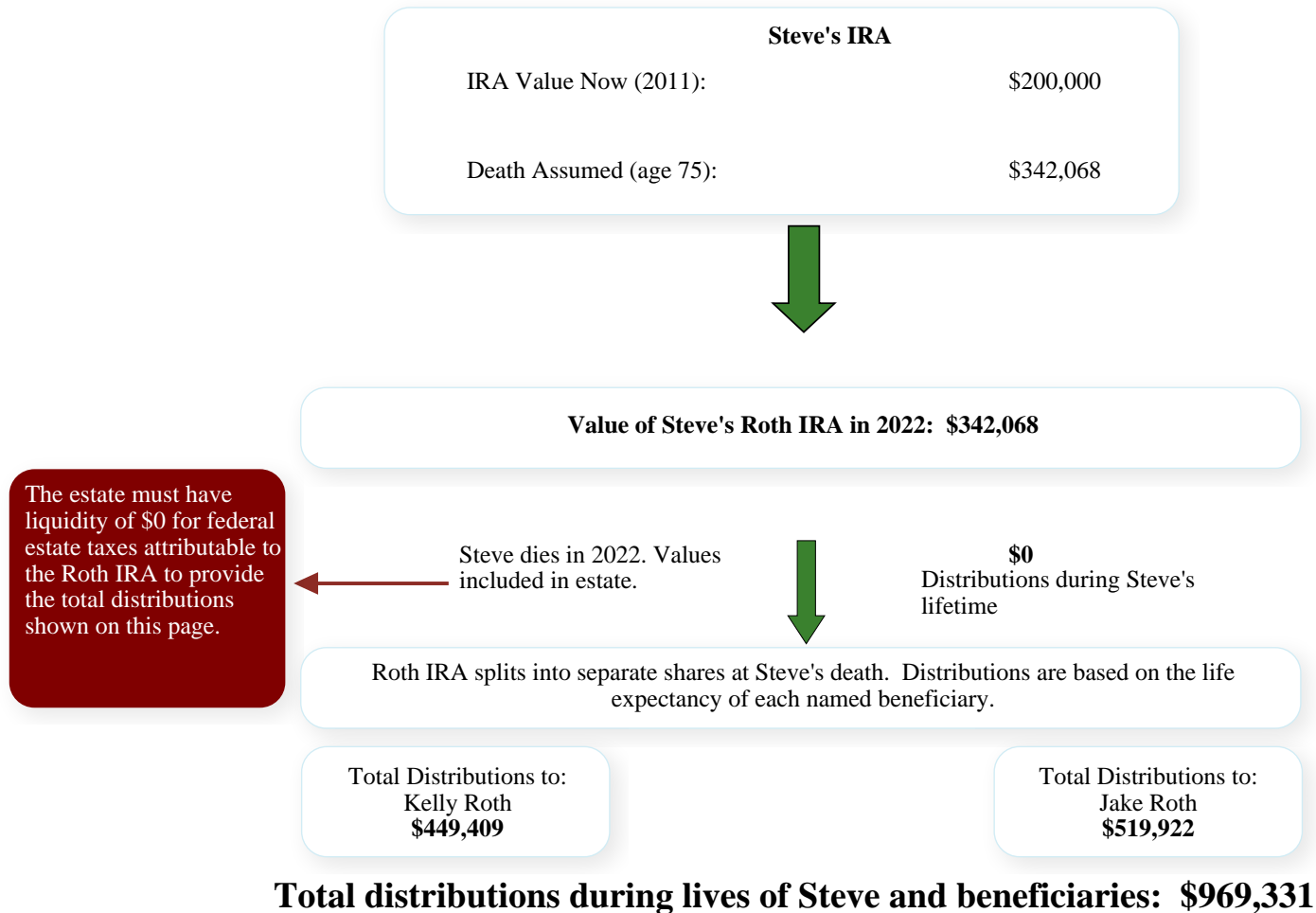
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# The Split Benefit Roth IRA—Non-Spouse Beneficiary Approach

A Multi-Generational Approach for Continuing Distributions (with a Non-Spouse Beneficiary)



The estate must have liquidity of \$0 for federal estate taxes attributable to the Roth IRA to provide the total distributions shown on this page.

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# The Split Benefit Roth IRA—Non-Spouse Beneficiary Approach

## A Multi-Generational Approach for Continuing Distributions

Beginning Account Balance December 31, 2011: \$200,000

Year	Client Age	Life Exp. <sup>1</sup>	Earnings & Contributions <sup>2</sup>	Actual Distributions <sup>3</sup>	Allocation of Distributions				Total of All Other Assets <sup>6</sup>	Roth Account Balance
					Income Taxes Paid <sup>4</sup>	Prem. & Non-Prem. Gifts	Spending	Reinvested Distributions <sup>5</sup>		
2012	65		210,000	0	0	0	0	0	510,500	210,000
2013	66		10,500	0	60,736	0	0	-60,736	459,316	220,500
2014	67		11,025	0	0	0	0	0	468,962	231,525
2015	68		11,576	0	0	0	0	0	478,810	243,101
2016	69		12,155	0	0	0	0	0	488,865	255,256
2017	70		12,763	0	0	0	0	0	499,131	268,019
2018	71		13,401	0	0	0	0	0	509,613	281,420
2019	72		14,071	0	0	0	0	0	520,315	295,491
2020	73		14,775	0	0	0	0	0	531,241	310,266
2021	74		15,513	0	0	0	0	0	542,397	325,779
2022	75		14,901	0	0	0	0	0	553,788	342,068

Total distributions during Steve's lifetime are \$0. At Steve's death, the Roth IRA is distributed to the named beneficiaries. Estate taxes of \$0 attributable to the account balance will be due at Steve's death.

<sup>1</sup> Steve's death is assumed to occur in 2022. Each beneficiary continues to receive a distribution based on his or her life expectancy. For Traditional IRA, 403(b) or other Qualified Plans, Steve takes required minimum distributions (RMDs) at age 70½ and calculates life expectancy annually based on the Uniform Lifetime Table. After conversion to Roth IRA, Steve no longer takes RMDs.

<sup>2</sup> Assumes qualified plan earns 5.00% interest. Also includes contributions, if any. After Roth Conversion, also includes amount converted to Roth IRA.

<sup>3</sup> For Traditional IRA, 403(b) or other Qualified Plans, Actual Distributions is the greater of distribution required to generate the Desired Distribution (see Assumptions pages) or RMD. After conversion to Roth IRA, distributions are assumed to be made from Other Assets during the 5 year holding period after Roth conversion.

<sup>4</sup> Taxes and any applicable penalties are paid at the start of the calendar year following the tax liability. Distributions from Traditional IRA, 403(b) or other Qualified Plans are taxable and distributions from Roth IRA are assumed to be income tax-free. See the Assumptions pages for information on distributions from a Traditional IRA with an original after-tax amount of \$0. After Roth Conversion, includes the estimated income taxes on the Traditional IRA taxable amount converted to Roth IRA, except for any after-tax amount.

<sup>5</sup> Actual Distributions less Taxes and Penalties, Premium and Non-Premium Gifts and Spending. After Roth conversion, Other Assets are used to the extent possible to pay the income taxes on Traditional IRA taxable amounts converted to Roth IRA.

<sup>6</sup> All Other Assets and Cumulative Reinvested Distributions are assumed to earn 3.00% interest and are taxed at a 30.00% income tax rate. Does not include the death benefit of life insurance.

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# The Split Benefit Roth IRA—Non-Spouse Beneficiary Approach

## Next Generation after Steve's Death

Year	Account Balance: \$171,034 Kelly Roth				Account Balance: \$171,034 Jake Roth			
	Age	Life Exp. <sup>1</sup>	Actual Distributions <sup>2</sup>	Account Balance <sup>3</sup>	Age	Life Exp. <sup>1</sup>	Actual Distributions <sup>2</sup>	Account Balance <sup>3</sup>
2023	51	33.3	5,136	174,449	46	37.9	4,513	175,073
2024	52	32.3	5,401	177,771	47	36.9	4,745	179,082
2025	53	31.3	5,680	180,980	48	35.9	4,988	183,048
2026	54	30.3	5,973	184,056	49	34.9	5,245	186,955
2027	55	29.3	6,282	186,952	50	33.9	5,515	190,766
2028	56	28.3	6,606	189,693	51	32.9	5,798	194,506
2029	57	27.3	6,948	192,229	52	31.9	6,097	198,133
2030	58	26.3	7,309	194,532	53	30.9	6,412	201,628
2031	59	25.3	7,689	196,569	54	29.9	6,743	204,966
2032	60	24.3	8,089	198,308	55	28.9	7,092	208,122
2033	61	23.3	8,511	199,713	56	27.9	7,460	211,069
2034	62	22.3	8,956	200,743	57	26.9	7,846	213,776
2035	63	21.3	9,425	201,355	58	25.9	8,254	216,211
2036	64	20.3	9,919	201,504	59	24.9	8,683	218,338
2037	65	19.3	10,441	201,139	60	23.9	9,135	220,119
2038	66	18.3	10,991	200,204	61	22.9	9,612	221,513
2039	67	17.3	11,573	198,642	62	21.9	10,115	222,474
2040	68	16.3	12,187	196,387	63	20.9	10,645	222,953
2041	69	15.3	12,836	193,371	64	19.9	11,204	222,897
2042	70	14.3	13,522	189,517	65	18.9	11,793	222,248
2043	71	13.3	14,249	184,744	66	17.9	12,416	220,945
2044	72	12.3	15,020	178,961	67	16.9	13,074	218,918
2045	73	11.3	15,837	172,072	68	15.9	13,768	216,096
2046	74	10.3	16,706	163,969	69	14.9	14,503	212,397
2047	75	9.3	17,631	154,537	70	13.9	15,280	207,737

<sup>1</sup> Calculated on December 31 of the year following death and reduced by one each year thereafter.

<sup>2</sup> Distributions from Roth IRA are assumed to be income tax-free.

<sup>3</sup> Assumes qualified plan earns 5.00% interest.

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# The Split Benefit Roth IRA—Non-Spouse Beneficiary Approach

## Next Generation after Steve's Death

Year	Kelly Roth				Jake Roth			
	Age	Life Exp. <sup>1</sup>	Actual Distributions <sup>2</sup>	Account Balance <sup>3</sup>	Age	Life Exp. <sup>1</sup>	Actual Distributions <sup>2</sup>	Account Balance <sup>3</sup>
2048	76	8.3	18,619	143,645	71	12.9	16,104	202,020
2049	77	7.3	19,677	131,150	72	11.9	16,976	195,145
2050	78	6.3	20,817	116,890	73	10.9	17,903	186,999
2051	79	5.3	22,055	100,679	74	9.9	18,889	177,460
2052	80	4.3	23,414	82,300	75	8.9	19,939	166,394
2053	81	3.3	24,939	61,475	76	7.9	21,062	153,651
2054	82	2.3	26,728	37,821	77	6.9	22,268	139,065
2055	83	1.3	29,093	10,619	78	5.9	23,570	122,448
2056	84	0.3	11,150	0	79	4.9	24,989	103,581
<b>Total:</b>			<b>\$449,409</b>		80	3.9	26,559	82,201
					81	2.9	28,345	57,966
					82	1.9	30,508	30,356
					83	0.9	31,874	0
					<b>Total:</b>		<b>\$519,922</b>	

<sup>1</sup> Calculated on December 31 of the year following death and reduced by one each year thereafter.

<sup>2</sup> Distributions from Roth IRA are assumed to be income tax-free.

<sup>3</sup> Assumes qualified plan earns 5.00% interest.

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# The Split Benefit Roth IRA—Non-Spouse Beneficiary Approach

## Wealth Transfer Costs

Beginning Account Balance December 31, 2011: \$200,000

Year	Client Age	Spouse Age	Roth Account Balance	Other Assets <sup>1</sup>
2012	65	64	210,000	510,500
2013	66	65	220,500	459,316
2014	67	66	231,525	468,962
2015	68	67	243,101	478,810
2016	69	68	255,256	488,865
2017	70	69	268,019	499,131
2018	71	70	281,420	509,613
2019	72	71	295,491	520,315
2020	73	72	310,266	531,241
2021	74	73	325,779	542,397
2022	75	74	342,068	553,788

Steve dies in year 2022. At Steve's death, the Roth IRA is distributed to the named beneficiaries. Estate taxes of \$0 will be due on these amounts.

**Continuation of this analysis assumes that Steve's estate has sufficient cash liquidity for all transfer costs without using this Roth IRA.**

### Steve's Death Occurs in Year 2022

Total of Other Assets <sup>1</sup>	\$553,788
Life insurance on Steve inside of estate <sup>2</sup>	\$0
Estimated Account Balance	\$342,068
Estimated share of estate taxes <sup>3</sup>	\$0
<b>Liquidity needed to continue this approach</b>	<b>\$0</b>
Existing life insurance on Steve outside of estate <sup>4</sup>	\$0
Proposed new life insurance outside of estate <sup>4</sup>	\$0

### Lilly's Death Occurs in Year 2027

Total of Other Assets <sup>1</sup>	\$614,429
Life insurance on Lilly inside of estate <sup>2</sup>	\$0
Estimated Account Balance	\$0
Estimated share of estate taxes <sup>3</sup>	\$0
<b>Liquidity needed to continue this approach</b>	<b>\$0</b>
Existing life insurance on Lilly outside of estate <sup>4</sup>	\$0

<sup>1</sup> Other Assets are assumed to be inherited by the surviving spouse and to qualify for the marital deduction. Other Assets are assumed to earn 3.00% interest and are taxed at a 30.00% income tax rate.

<sup>2</sup> Life insurance included in the deceased's estate is assumed to be added to Other Assets.

<sup>3</sup> Estate tax calculations are based on the total of the Account Balance, the Other Assets, and any Life Insurance included in the estate. No probate fees or expenses are considered. Estimated Share of Estate Taxes is the ratio that the Account Balance bears to the Total Estate. See the Assumptions pages for additional information.

<sup>4</sup> Life insurance outside the deceased's estate is assumed to be paid directly to heirs and will not be in the estate of the surviving spouse.

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# Understanding IRAs, Roth IRAs, Conversions

## Key Concepts & Rules

### Traditional IRAs

- Contributions are limited to \$5,000 for 2012 (\$6,000 if 50 or over) and are generally tax deductible.
- If you are eligible for a retirement plan at work and your modified adjusted gross income (MAGI) is \$92,000 - \$112,000 in 2012 (married, filing jointly), deductibility phases out and is eliminated thereafter. If your spouse is covered by a retirement plan at work, but you are not, the phase out is \$173,000 - \$183,000 for married, filing joint. (The phase out is \$58,000 - \$68,000 for single taxpayers.)
- Funds grow tax-deferred, but are taxed as ordinary income upon distribution.
- Minimum distributions are required annually beginning on the Required Beginning Date (RBD<sup>1</sup>).
- Distributions taken prior to age 59½ are subject to a 10% early distribution penalty tax, with certain exceptions.
- Distributions after your death (or your spouse's death) are taxed as ordinary income to the beneficiary as distributions are received.
- At your death (or your spouse's death), the entire account value is includible in the gross estate for federal estate tax purposes, and may be subject to estate taxes.

### Roth IRAs

- Contributions are limited to \$5,000 for 2012 (\$6,000 if 50 or over) and are NOT income tax deductible.
- Ability to contribute is phased out if you earn \$173,000-\$183,000 for married, filing jointly in 2012, and eliminated thereafter. The phase out is \$110,000 - \$125,000 for single taxpayers.
- Funds grow tax deferred and are generally not taxable upon withdrawal.
- No minimum distributions are required from Roth IRAs, during your (or your spouse's) lifetime.
- Withdrawals of contributions to Roth IRAs, prior to age 59½, are not subject to the 10% early withdrawal penalty tax. Withdrawals of earnings within 5 years of establishing a Roth IRA are taxed as ordinary income. Earnings taken prior to age 59½ are taxed as ordinary income, and may be subject to a 10% early withdrawal penalty tax, with certain exceptions.
- Qualified distributions after your death are received by the beneficiary income tax-free, assuming the 5 year period has been satisfied.
- At your death (or your spouse's death, if spouse is considered owner of Roth IRA at death), the entire account value is includible in the gross estate for federal estate tax purposes, and may be subject to estate taxes.



### Conversions (from a Traditional IRA or Qualified Retirement Plan to a Roth IRA)

- **A Conversion is a taxable event.** The entire (or partial) amount of the Traditional IRA (less any non-deductible contributions) is taxable as ordinary income upon conversion (or distribution). The conversion amount may move you into a higher marginal income tax bracket.
- Beginning in 2010 there is no income limit for Roth IRA conversions.
- If you pay the taxes out of the Traditional IRA, it will reduce the benefits of the conversion to a Roth IRA, and if you are under age 59½, the amount used to pay income taxes will be subject to the 10% early distribution penalty tax unless an exception applies.
- Withdrawals of converted amounts within 5 years of each separate conversion to Roth IRAs may be subject to a 10% early distribution penalty tax and withdrawals of earnings may be subject to a 10% early distribution penalty tax and/or taxed as ordinary income.
- Distributions from a Traditional IRA must be deposited into a Roth IRA within 60 days (not applicable for trustee-to-trustee transfers).
- You do not have to convert your entire Traditional IRA. A partial conversion is allowed, but you must follow the same rules as any other distribution regarding nondeductible contributions.

<sup>1</sup> The RBD is no later than April 1st of the year following the year in which the IRA owner attains age 70½ for Traditional IRAs, SEPs, and SIMPLE IRAs. For qualified retirement plans, the RBD is the later of April 1 of the year following the year in which the owner reaches age 70½ or retires, if less than a 5% owner.

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# Retirement Savings Options

## IRA vs. Roth vs. Taxable Accounts

### Pay Taxes Now or Later?

The deciding factor between choosing an IRA or Roth IRA is whether you prefer paying taxes on your contributions (Roth IRA) or on your distributions (Traditional IRA). So when will your taxes be higher – during your working years or during retirement? When comparing, be sure to consider your income level during each phase (both income and withdrawals from assets), in addition to potential legislative changes.

### The Flexibility of the Roth IRA

A major advantage of the Roth IRA is the flexibility of distributions before and during retirement:

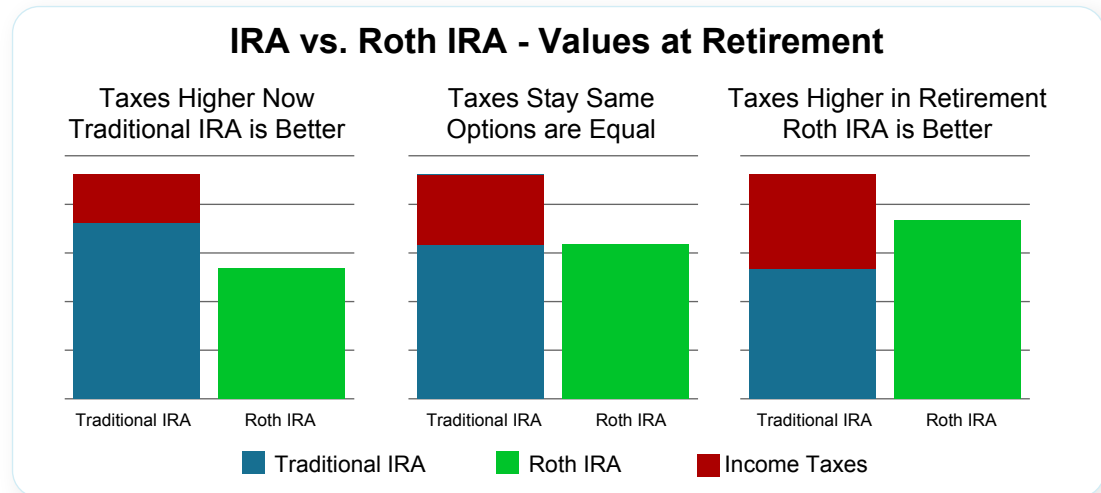
- Withdrawals from Traditional IRAs may be subject to an additional 10% penalty tax, with some exceptions, while there is no penalty tax on withdrawals of contributions from a Roth IRA, assuming distributions are qualified and not from assets converted within 5 years.
- Required Distributions (after 70½) — Traditional IRAs require minimum distributions each year, while a Roth IRA has no required distributions for the Roth IRA owner.

### The Case Against "Taxable Accounts" (Savings Accounts)

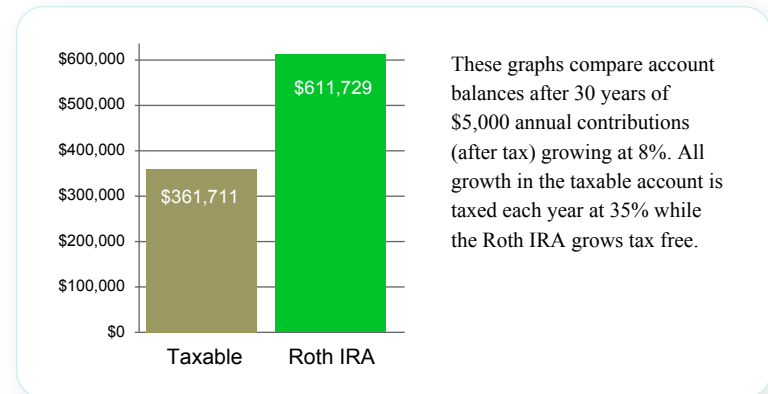
Contributions to taxable accounts are made after-tax (just like a Roth IRA), but unlike a Roth IRA, interest and dividends generated are taxable each year, and capital gains taxes are due when liquidating an investment held for more than a year. This combination of taxes can significantly reduce your ability to accumulate retirement funds over the long-term, and may affect or limit your investment options and the frequency of changes to your investments over the long-term. The upside is that there are no penalties or restrictions on withdrawals from taxable accounts before retirement, making them perfect for short-term savings.

**Use taxable accounts for short-term savings.**

**Use IRAs and Roth IRAs for long-term retirement funding.**



For conceptual purposes only. See your personalized illustration for information based on your specific circumstances.



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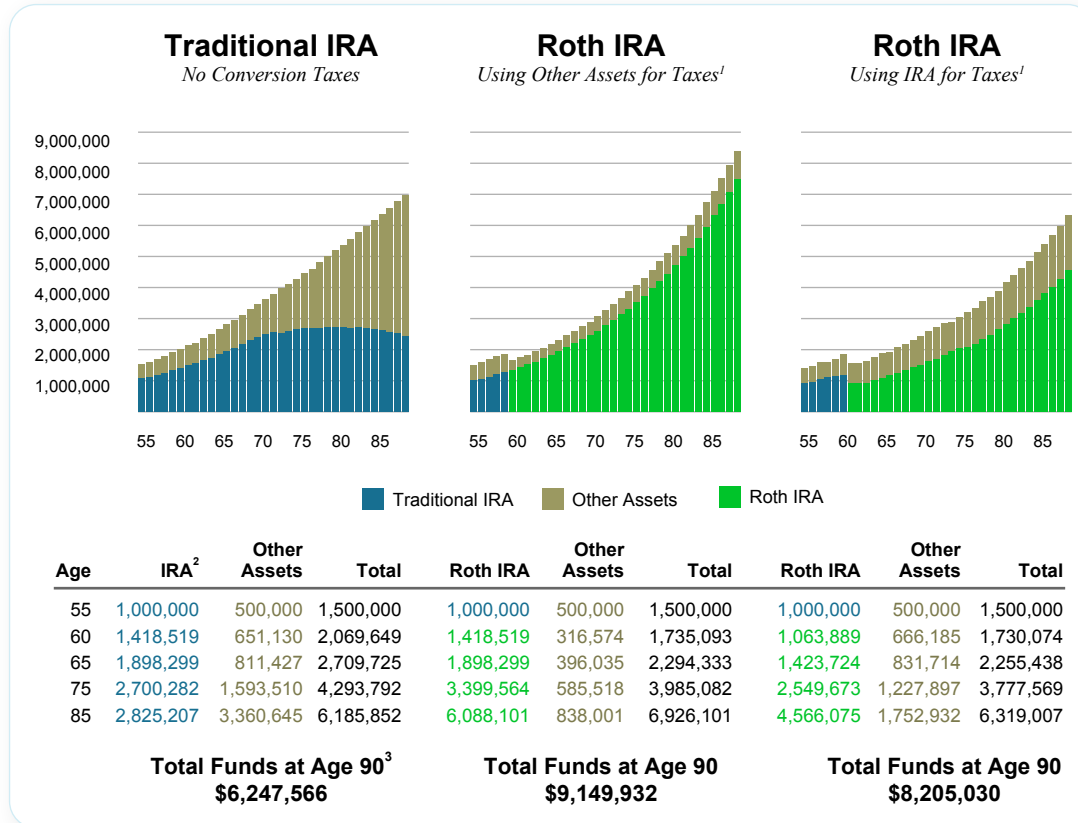
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# Comparing IRA with Roth IRA Conversion

## Hypothetical Sample Conversion of Traditional IRA to Roth IRA

### Example:

- Currently age 55
- Considering conversion to Roth IRA at age 60
- Believes that income tax rates will be higher during retirement
- **\$1,000,000 IRA** growing at an assumed 6%
- **\$500,000 Other Assets** earning 6% before taxes



## Major Difference-Distributions

### Traditional IRAs

- Must take required minimum distributions at age 70½.
- Distributions are generally taxable as ordinary income.

### Roth IRAs

- No required distributions during owner's lifetime.
- Income taxes are paid on the taxable amount of the Traditional IRA converted to Roth IRA.
- Qualified distributions are received income tax-free.

**Roth IRA qualified distributions provide a source of income tax-free proceeds to use or leave to heirs.**

<sup>1</sup> For this illustration, income tax rates are assumed to be 25% for 15 years, and 40% thereafter. Example assumes the net distributions after taxes are deposited into the Other Assets.

<sup>2</sup> IRA is subject to income tax upon distribution, except for the after-tax amount, if any.

<sup>3</sup> For comparison purposes, calculation assumes taxes of \$1,026,275 are paid out of Traditional IRA and reduce the Traditional IRA's value from \$2,565,687 to \$1,539,412.

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# Assumptions

## Details and Assumptions for Split Benefit Roth IRA Calculations

### General Assumptions

Steve's DOB: September 15, 1947 and Lilly's DOB: July 18, 1948

Calculations assume that the value of All Other Assets (excluding life insurance) is equal to \$500,000. These assets are assumed to earn 3.00% interest. Hypothetical rates of return illustrated are not associated with any particular investment product.

Calculations assume an ordinary income tax rate of 30.00%.

The Account Balance and Other Assets are grown pro-rata based on the date entered.

### Estate Assumptions

Assumes Steve's unused Unified Credit is not considered in estimating estate taxes at Lilly's death. For 2011 and 2012, assumes portability of any unused Basic Exclusion Amount at first spouse's death.

Federal Inflation Rate for Basic Exclusion Amount is 2.00%.

### Traditional IRA/Qualified Plan Assumptions

Current Traditional IRA/Qualified Plan amount is \$200,000, which includes the original after-tax amount of \$0, and assumes a growth rate of 5.00%. Calculations assume all non-deductible and after-tax contributions (also known as basis, investment in the contract, and non-taxable portion) are included in the original after-tax amount of \$0. Hypothetical rates of return illustrated are not associated with any particular investment product.

A portion of the distributions from the Traditional IRA/Qualified Plan that includes any after-tax amount may not be taxable. These illustrations assume there are no other Traditional IRA/Qualified Plan account balances for calculations that include any after-tax amount.

Elections:

Distributions are at least the Required Minimum Distribution using the Uniform Lifetime Table.

### Roth IRA Assumptions

Conversion Occurs: Year 2012

Roth IRA amount is \$200,000, which includes the original after-tax amount of \$0, and assumes a growth rate of 5.00%. Hypothetical rates of return illustrated are not associated with any particular investment product.

There are no required minimum distributions during participant's or spouse's lifetime (if spouse is considered as owner).

### Beneficiary Information

Beneficiary Name	Date of Birth	Percentage Split
Kelly Roth	March 9, 1972	50.00%
Jake Roth	April 2, 1977	50.00%

These illustrations assume all distributions to non-spouse beneficiaries are income tax-free.

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# Assumptions (Continued)

## Details and Assumptions for Split Benefit Roth IRA Calculations

### Traditional IRA

Contributions may be tax deductible and earnings are tax-deferred. Annual contribution amounts are limited, and deductibility of contributions is based on modified adjusted gross income (MAGI), and not being a participant in an employer-sponsored retirement plan. Consult your tax advisor to determine the maximum tax-deductible contribution amount allowed annually. Contributions may also be non-deductible (after-tax), but earnings are tax deferred. These illustrations assume there are no other Traditional IRA/Qualified Plan account balances for calculations that include any after-tax amount. Required minimum distributions must begin by age 70½.

### Roth IRA

Contributions are *not* tax deductible but earnings are tax-deferred. Annual contribution amounts are limited, and the ability to contribute is based on modified adjusted gross income (MAGI). Consult your tax advisor to determine the maximum contribution amount allowed annually. Withdrawals of contributions to Roth IRAs are not subject to income tax or the 10% early withdrawal penalty tax. Withdrawals of earnings from a Roth IRA are considered qualified distributions after the 5-taxable year holding period for which a contribution or conversion was made to any Roth IRA *and* the owner is age 59½ or older. Withdrawals of earnings within 5 years of establishing a Roth IRA are taxed as ordinary income. Earnings taken prior to age 59½ are taxed as ordinary income, and may be subject to a 10% early distribution penalty tax, with certain exceptions. There are no required minimum distributions at any age.

### Conversion of Traditional IRA to Roth IRA

Beginning in 2010, there is no income limit for Roth IRA conversions. Amounts converted from the Traditional IRA (except for any after-tax amount) are taxable in the year of the conversion. These illustrations assume there are no other Traditional IRA/Qualified Plan account balances for calculations that include any after-tax amount. Withdrawals of earnings from a Roth IRA are considered qualified distributions after the 5-taxable year holding period for which a conversion or contribution was made to any Roth IRA *and* the owner is age 59½ or older. Withdrawals of converted amounts within five years of each conversion to Roth IRA may be subject to the 10% early distribution penalty tax, and withdrawals of earnings may be subject to the 10% early distribution penalty tax and/or taxed as ordinary income.

### Final Regulations

Required Minimum Distributions are calculated based on the Uniform Lifetime Table. If your beneficiary is your spouse (who is more than 10 years younger than you) distributions during your life may be calculated using the Joint and Last Survivor Table.

### Roth IRA Rollover Assumptions

Steve is not required to take distributions. Lilly is named beneficiary.

Each non-spouse beneficiary takes distributions based on the single life expectancy of the oldest beneficiary, minus one each year, if the beneficiaries failed to split the Roth IRA into separate accounts by December 31 of the year following the year of your death.

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# Assumptions (Continued)

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## Details and Assumptions for Split Benefit Roth IRA Calculations

### **Split Benefit Roth IRA-Rollover and Split Assumptions**

Steve is not required to take distributions. Lilly is named beneficiary.

At Lilly's death, the Roth IRA is split into separate Roth IRAs with named beneficiaries.

Distributions continue to each beneficiary at Lilly's death calculated on the named beneficiary's life expectancy as of 12/31 in the year following Lilly's death.

Lilly's estate is assumed to have cash liquidity to fund estate taxes outside of Roth IRAs for this analysis.

### **Split Benefit Roth IRA-Non-Spouse Beneficiary Assumptions**

Steve is not required to take distributions. At Steve's death, the Roth IRA is split into Roth IRAs for each non-spouse beneficiary.

Steve's death is assumed in year 2022. Your estate is assumed to have enough cash liquidity outside of Roth IRAs in this analysis.

Each non-spouse beneficiary starts taking the required minimum distributions based on his or her life expectancy and is assumed to live to the life expectancy used in the illustration.

Distributions continue to each beneficiary at Steve's death calculated on the named beneficiary's life expectancy as of 12/31 following Steve's death.

### **Distribution Assumptions**

Qualified distributions from Roth IRA are not subject to federal income tax or the additional 10% penalty tax. These illustrations assume non-qualified distributions of earnings from a Roth IRA are taxed as ordinary income *and* subject to the additional 10% penalty tax on early distributions if owner or spouse is not 59½ or older.

Distributions from the Traditional IRA/Qualified Plan that does *not* include any after-tax amount are taxable. A portion of the distributions from the Traditional IRA/Qualified Plan that includes any after tax amount is not taxable. The non-taxable portion is the amount of the distribution that bears the same ratio to the total amount of the distribution received as the total remaining after-tax amount bears to the Traditional IRA/Qualified Plan account balance at the end of the year.

Early retirement distributions are not exempt from the IRC Section 72(t) penalty.

Desired distributions for premiums, expenses, and/or gifts are deducted from the Account Balance or Roth Account Balance of the owner or spouse before conversion to Roth, and after expiration of the 5-taxable year holding period following Roth conversion. These desired distributions are deducted from "Other Assets" during the 5-taxable year holding period following conversion to Roth, and if the Account Balance or Roth Account Balance is not sufficient.

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# Assumptions (Continued)

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## Details and Assumptions for Split Benefit Roth IRA Calculations

### **Tax Act of 2010**

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 was signed into law on December 17, 2010 as P.L. 111-312, also known as Tax Act of 2010 in this presentation. Tax Act of 2010 applies to deaths and gifts made in years 2011 and 2012. Tax Act of 2010 provides for 'portability' of a deceased spouse's unused Basic Exclusion Amount. Unused exclusion amounts may be passed to the surviving spouse (election must be made on timely filed estate tax return) in years 2011 and 2012. Unless Congress extends all or part of the Act's provisions, the rates, exemptions and procedures will revert to those in effect without regard to the Tax Act of 2010 (pre-EGTRRA 2011.) Calculations for deaths or gifts in 2011 and 2012 reflect the rates, exemptions, and other provisions (portability) within the Tax Act of 2010. All other calculations assume that Congress does **not** extend any of the provisions of this law, and the law in effect prior to EGTRRA 2001 is applied.

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