



ATLANTIC TRUST

PRIVATE WEALTH MANAGEMENT

Analysis of Roth IRA Conversions

*To convert or not to convert;
that is a great question!*

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Introduction to the Roth IRA

- Can only fund with after-tax contributions
- Distributions are tax-free if certain requirements are met
- Able to take early distributions of contributions without tax or penalties (subject to a 5 year holding period)
- No required distributions at age 70 ½
- No age limits on contributions
- Inherited Roth IRA distributions are free of income tax subject to continued 5 year holding period (Roth is subject to estate tax)
- Maximum annual contributions are \$5,000 (\$6,000 for over age 50) but must have 2010 tax AGI less than \$167,000 for married couple and \$105,000 for single

Advantages

- Contributions
 - Paying the tax on the conversion with non-qualified assets is, effectively, an additional contribution
 - Can make contributions after age 70 ½ subject to Roth contribution rules
- Order and taxability of distributions:
 - Roth contributions are distributed first, tax-free
 - Conversion contributions are distributed next, tax-free (nonqualified distributions subject to IRC Section 408A(d)(4))
 - Earnings are distributed last, tax-free (subject to qualified distribution and excise tax requirements and holding periods)
- No required distributions at age 70 ½
- Estate is reduced by the income tax paid
- Tax favored account for devises to family members

Disadvantages

- Potential for faster distributions from Roth IRA if it does not qualify for “stretch” IRA treatment
- Income tax rates could be higher in year of conversion/contributions than in years of distributions
- Tax law changes could remove tax-free treatment on earnings
- Liability protection varies slightly depending upon state statute
- Tax paid on conversion reduces funds available for charitable devises

Conversion

- In 2010, no income limitation for conversion eligibility
- Conversions in 2010 qualify for deferred recognition of income equally in 2011 and 2012 (default application)
- Conversions in 2010 can be recognized entirely in 2010
- Accounts that qualify include traditional IRAs and many qualified retirement plans. However, many plans require a separation of service before a distribution is allowed.
- Restrictions on SEP or SIMPLE IRAs
- 5 year holding period
 - Income tax deferred if Roth has been held since 2006
 - Requirement to hold converted Roth IRA for full 5 years to be excluded from excise tax (10%)
 - Roth 401(k) and Roth 403(b)
 - Exceptions of 10% excise tax applies (IRC Section 408A(d)(2))

Tax Planning

- Quantify any loss carryovers and evaluate 2010, 2011 and 2012 income
- Need to estimate (guess) what tax rates will be going forward
- Income tax from 2010 isn't due until 4/15/2011
- Evaluate tax deduction lumping, i.e. state tax payments (to extent out of AMT) and charitable deduction
- Use non-qualified assets to pay the income taxes

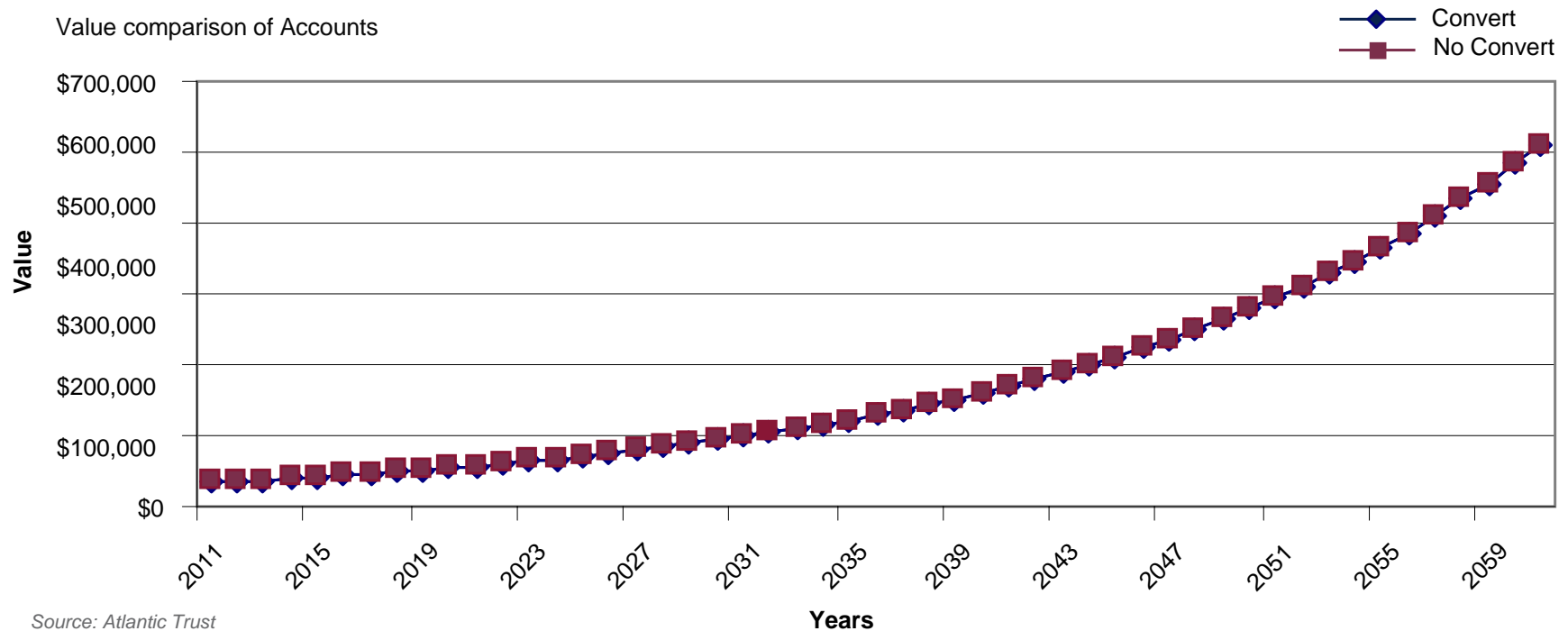
Conversion Tactics

- Use same custodian or Trustee to Trustee transfer
- Avoid 60 day exception
- Make sure beneficiary designations allow for “stretch” benefits
- Use a new Roth IRA for the conversion – this allows for “re-characterization”
 - Tax reset provision allows taxpayers to undo the conversion
 - Must wait until later of next tax year or 30 days before conversion permitted again
 - This allows taxpayer to evaluate the effectiveness of the performance of the account--the market may provide for some tax savings

Example 1 – Convert with only IRA Assets

Assume Client has a \$12,000 non-qualified account and a \$30,000 IRA. Client is in top tax bracket of 35%, capital gains taxes are 15% and these rates don't change over time. Further assume that the clients portfolio returns are 2% taxable yield and 4% growth with a 20% annual portfolio turnover. Ignore excise tax and RMDs.

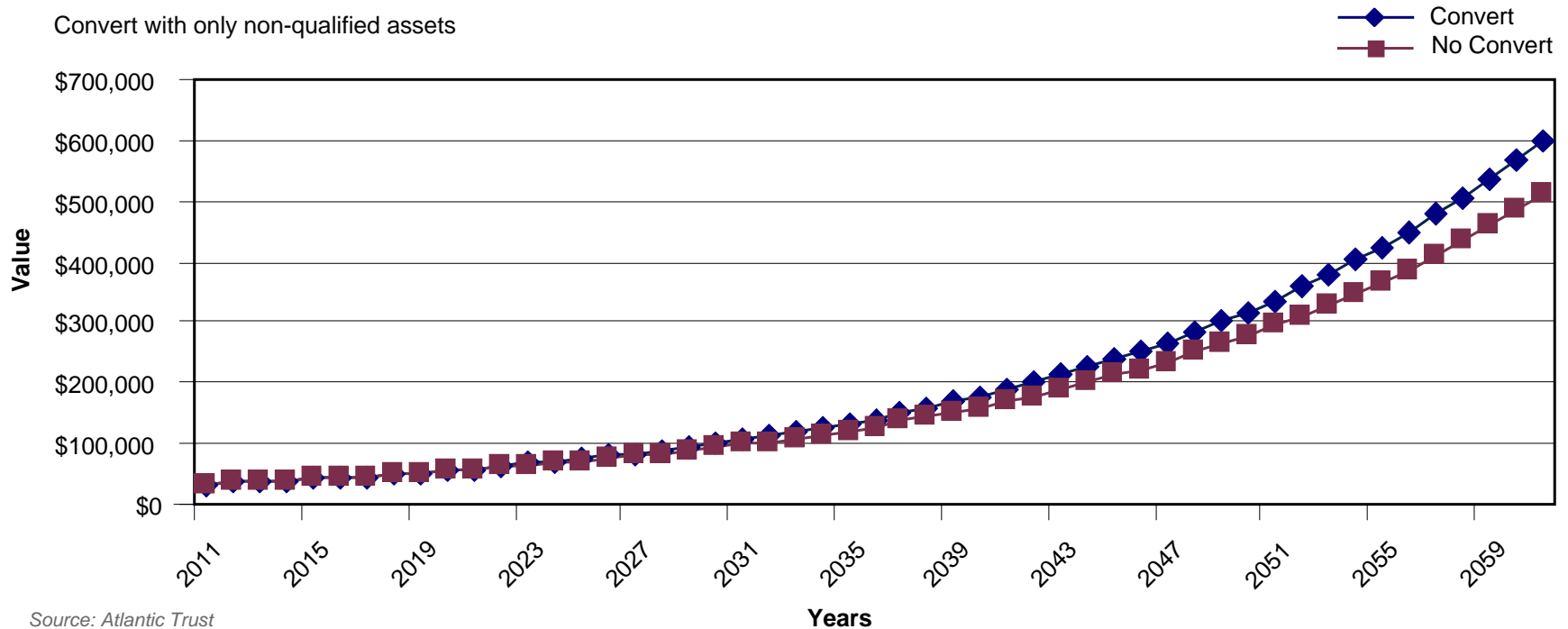
Client wants to convert IRA and only wants to use IRA money to do so.



Example 2 – Convert with only non-qualified assets

Assume Client has a \$12,000 non-qualified account and a \$30,000 IRA. Client is in top tax bracket of 35%, capital gains taxes are 15% and these rates don't change over time. Further assume that the clients portfolio returns are 2% taxable yield and 4% growth with a 20% annual portfolio turnover. Ignore excise tax and RMDs.

Client wants to convert IRA and use only the non-qualified assets to do so.



Example 3 – Consumption of IRA

Initial account balance and net of conversion taxes:

	IRA	Roth IRA
Beg Balance	\$ 30,000	\$ 30,000
Taxes	—	(12,000)
	<hr/>	<hr/>
	30,000	18,000

Growth over 20 years at 7.2%

	IRA	Roth IRA
Ending Balance	\$ 120,000	\$ 72,000

Account balance after effective tax in 20 years:

Tax Rate	IRA	Roth IRA
30%	87,000	72,000
40%	72,000	72,000
50%	60,000	72,000

Speaker Biographies

Linda S. Beerman

Chief Fiduciary and Risk Officer



Linda Beerman serves as the chief fiduciary and risk officer for the firm as well as manager of Atlantic Trust's Wealth Strategies group. With 31 years of experience in the financial services industry, Linda manages client estate and wealth planning and has oversight responsibility for policy and procedures through the Trust and Risk Management Committees. Before joining Atlantic Trust in 2001, Linda was the manager of estate and financial planning for Wachovia's Trust Department, which she joined in 1978. Linda received her Bachelor of Arts from Denison University and a Juris Doctorate from Wake Forest University School of Law. She is a member of the North Carolina Bar and the North Carolina Bar Association and has served on the Trust Drafting Committee of the North Carolina General Statutes Commission and as a member of the adjunct faculty of Wake Forest University School of Law. In addition, Linda is a member of the Wake Forest University and Forsyth Country Day School Planned Giving Advisory Councils and has served on the Forsyth Country Day School Board of Trustees.

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Speaker Biography

H. Arthur Graper, CFP®

Senior Vice President



Art Graper is a senior relationship manager who specializes in advising clients in the development, execution, and monitoring of comprehensive wealth management strategies. Art joined Atlantic Trust in 2005 and has 15 years of experience working with high-net-worth individuals. Prior to joining Atlantic Trust, Art was a principal with Harris myCFO, Inc., where he provided coordinated services in investment advisory, tax planning, and compliance, estate planning and implementation, philanthropic counseling, expense management, and reporting and risk management. Art is a Certified Public Accountant and a CERTIFIED FINANCIAL PLANNER™ professional. He is a member of the Rocky Mountain Estate Planning Council and is a board member and treasurer of the Denver Affiliate of the Susan G. Komen Breast Cancer Foundation. He earned a Bachelor of Science from Colorado State University, graduating cum laude with university honors, and earned a Masters in Taxation from the University of Denver.

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Speaker Biography

F. Allen Lyons

Associate Vice President



Allen is an analyst and wealth strategies associate in the Houston office with three years of industry experience. Prior to joining Atlantic Trust in 2008, he worked as a tax and audit associate at Stevens, Henry & Mathews, LLP. Before beginning his MBA, Allen worked as an auditing intern for Grant Thornton. Allen earned a Bachelor of Science in accounting from Louisiana State University and a Master of Business Administration from the University of St. Thomas. Further more he is a member of the Ranching and Wildlife Committee at the Houston Livestock Show and Rodeo; life-member at the Houston Livestock Show and Rodeo; life-member of the Houston Golf Association; member of Young Friends of CanCare; and a member of Young Texans against Cancer.

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