

## Retirementoptimizer.com - Analyzing Roth Conversions

July 2010 Case Studies:

### Case A: Poor Clients, just retired

Input: Couple, ages: 65, assets \$250,000 in tax-deferred account, need \$40,000/year pre-tax total income, income from other sources: \$30,000

1. No conversion: Annual taxes  
Taxable Income \$40,000, personal exemptions \$7,300, net taxable income: \$32,700,  
\$1675 10% on the first \$16,750 plus  
\$2393 15% on the remaining \$15,950 (\$32,700 - \$16,750)  
Total income tax: \$4,068 / year
2. With conversion: Annual Taxes  
Taxable Income \$30,000, personal exemptions \$7,300, net taxable income: \$22,700,  
\$1,675 10% on the first \$16,750 plus  
\$893 15% on the remaining \$5,950 (\$32,700 - \$16,750)  
Total income tax: \$2,568 / year

Annual Tax savings: \$1,500 (\$4,068 - \$2,568)

Annual Pre-tax Income Required with conversion: \$38,500 instead of \$40,000

3. One –time tax on \$250,000 (paid over 2 years) at 25% marginal rate: \$62,500 (\$31,250 at age 65, \$31,250 at age 66)

### COMPARE BREAKEVEN AGE!

### Case B: Poor Clients, 10 years from retirement

Input: Couple, Ages: 55, plan to retire at age 65. Assets \$250,000 in tax-deferred account, save \$8,000/year. At retirement, they need \$40,000/year pre-tax total income, income from other sources: \$30,000.

Annual Tax savings after 65: \$1,500 in current dollars (same as Case A)

Annual Pre-tax Income Required with conversion: \$38,500 instead of \$40,000

One –time tax on \$250,000 (paid over 2 years) at 25% marginal rate: \$62,500 (\$31,250 at age 55, \$31,250 at age 56)

### COMPARE BREAKEVEN AGE!

### Case C: Rich Clients, just retired

Input: Couple, ages: 65, assets \$900,000 in tax-deferred account, need \$70,000/year pre-tax total income, income from other sources: \$30,000

1. No conversion: Annual taxes

Taxable Income \$70,000, personal exemptions \$7,300, net taxable income: \$62,700,  
\$1,675 10% on the first \$16,750 plus  
\$6,893 15% on the remaining \$45,950 (\$62,700 - \$16,750)  
Total income tax: \$8,568 / year

2. With conversion: Annual Taxes

Taxable Income \$30,000, personal exemptions \$7,300, net taxable income: \$22,700,  
\$1,675 10% on the first \$16,750 plus  
\$893 15% on the remaining \$5,950 (\$32,700 - \$16,750)  
Total income tax: \$2,568 / year

Annual Tax savings: \$6,000 (\$8,568 - \$2,568)

Annual Pre-tax Income Required with conversion: \$64,000 instead of \$70,000

3. One –time tax on \$900,000 (paid over 2 years) at 35% marginal rate: \$315,000 (\$157,500 at age 65, \$157,500 at age 66)

### COMPARE BREAKEVEN AGE!

### Case D: Rich Clients, 10 years from retirement

Input: Couple, Ages: 55, plan to retire at age 65. Assets \$900,000 in tax-deferred account, save \$12,000/year. At retirement, they need \$70,000/year pre-tax total income, income from other sources: \$30,000.

Annual Tax savings after 65: \$6,000 in current dollars (same as Case C)

Annual Pre-tax Income Required with conversion: \$64,000 instead of \$70,000

One –time tax on \$900,000 (paid over 2 years) at 35% marginal rate: \$315,000 (\$157,500 at age 55, \$157,500 at age 56)

### COMPARE BREAKEVEN AGE!