

Pension & Roth IRA Analyzer

Software and User Manual (version 2003.10)

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Chapter 1

Introducing the Program

One of Brentmark's most popular programs, Pension and Roth IRA Analyzer is used and recommended by pension distribution planning experts.

Pension Distribution Planning

While the program is the most comprehensive available for pension distribution planning, you will find running the program straightforward and simple. The key is to think of the main window as divided into parts.

The program evaluates various strategies of taking distributions from qualified plans, traditional IRAs and Roth IRAs. It calculates up to four alternatives simultaneously. It's designed to handle both the current (2003 and later) rules and all recalculation options for the old rules.

The program also includes income tax and estate tax calculations for you. You can model spousal rollovers and account for the §691(c) deduction for estate tax. It will also show you the value of the stretchout in the hands of the beneficiary.

Roth IRA Conversion Analysis

If you're looking to do Roth IRA conversion analysis, Pension & Roth IRA Analyzer is the most comprehensive program available. It handles partial and multiple year conversions. It also performs optimization conversion calculations based on Net After-Tax Assets and handles estate tax and income tax.

Distribution Planning

You can see the effect of all three methods under IRS Rev. Rul 2002-62 (2002 and later) and IRS Notice 89-25 (2002 and earlier) that may be used to avoid the 10% penalty on early plan distributions. You can select different life expectancy tables and reasonable interest rates.

Other Program Features

You can:

- Toggle inflation adjustment on or off.
- Enter distributions pre-tax or after-tax.
- Handle income tax by entering rates or entering AGI.
- Send to your printer, a text file, a spreadsheet file or the clipboard.
- Use the report designer for custom reports.

The program also includes donee exclusion gifting, 2nd-to-die insurance proceeds and premiums, and presentation-style graphs.

The first step to using the software is to install it on your computer, using the instructions that follow.

Installation

Before you install the program, be sure that you're running a Windows 95 or later operating system. The Pension & Roth IRA Analyzer does not run on Windows 3.1 or earlier operating systems.

Installing the Program

Insert the disk into the disk drive.

On the Windows Taskbar, click the **Start** button.

On the **Start** menu, click **Run**. The Run dialog box appears. In the **Open** box, A:\setup.EXE should appear. If it doesn't, type A:\setup.EXE.

Click OK.

The setup program begins. Follow the instructions in the setup program.

Uninstalling the Program

On the Windows Taskbar, click the **Start** button.

Point to **Settings** and click **Control Panel**. The Control Panel window appears.

Click **Add/Remove Programs**. The Add/Remove Program Properties dialog box appears.

Use the scrollbar to find the Minimum Distributions Calculator. When you find it, click the program title. Notice that the **Add/Remove** button is now functional.

Click the **Add/Remove** button.

The uninstall program begins. Follow the instruction in the uninstall program.

What Do You See on the Screen?

When you run the program, the Pension & Roth IRA Analyzer window opens. The rest of this chapter will be devoted to the interface—what you see on the screen and how to go through the program step by step.

These are the things you'll see on the screen:

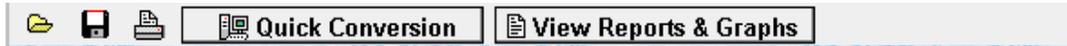
Title Bar

The title bar is the blue bar that appears in the top of the window. It contains the following information:

- Program title
- Program version number
- File name (if the file has been saved)

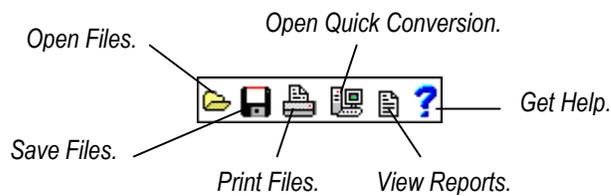
Menu Bar

The Menu bar appears below the title bar. Use the Menu bar to select program commands.



Toolbar

The toolbar, located below the Menu bar, contains graphics as commands. You can click these graphics instead of using the related Menu bar commands.



OK, now onto looking at the window.

The screenshot shows a software window with a menu bar (File, Edit, Reports, Quick Calcs, Help) and a toolbar (Quick Conversion, View Reports & Graphs). The window is divided into several sections:

- Left Side:** A vertical column of buttons for navigating between data entry sections: Main Inputs (highlighted in red), Client Info, Taxes, Inc. & Exp., Pension, Roth IRA, Other Assets, Contributions, Insurance, Gift Fund, and Reports.
- Right Side:** Data entry sections for Starting Balances, Birth Dates, and Alternative Inclusions. The 'Alternative NOT Included' sections are highlighted in red.
- Bottom Portion:** A 'Summary Report - Alternative 1' table showing financial data for the years 2003, 2004, and 2005.
- Bottom:** A 'Hint Line' with the text 'Enter the balance of the Other Assets as of 12/31/2003'.

Annotations on the screenshot include:

- A box on the left with the text 'Buttons to display different data entry sections' and an arrow pointing to the left-side buttons.
- A box on the right with the text '← Data Entry Sections' and an arrow pointing to the right-side data entry sections.
- A box at the bottom left with the text '↑ Hint Line' and an arrow pointing to the hint line.
- A box at the bottom right with the text '↖ Current Report' and an arrow pointing to the summary report.

Year	Pension Fund Begin Value	Annual Distributions	Other Assets Ending Value	Net After-Tax Assets
2003	\$1,500,000	\$56,604	\$44,399	\$3,448,880
2004	\$1,558,868	\$60,893	\$95,572	\$3,682,676
2005	\$1,617,813	\$65,499	\$154,149	\$3,756,685

Right Side of the Window: Data Entry Sections

The right side of the window displays the program's data entry sections.

Left Side of the Window: Buttons to Get to Different Data Entry Sections

Click the buttons on the left side of the window to display different data entry sections. When you click a button, the button title appears red. For example, when you open the program or create a new file, the title of the first button in the column, Main Inputs, is highlighted in red.

Bottom Portion of the Window: Current Report

The bottom portion of the window displays report results. Throughout this manual file, this section is referred to as the Current Report. The title of the report and the Alternative for which results are displayed appear above the Current Report. For example, when you open the program, the Summary Report for Alternative 1 appears.

Below the Current Report: Hint Line

Below the Current Report is the Hint Line. The Hint Line displays short commands to help you with data entry. As you move the pointer across buttons, boxes, and other areas of the window, the Hint Line displays different commands.

Default Values Loaded for the Program

When you open the Pension & Roth IRA Analyzer or create a new file, the program automatically loads a set of default values, creating a simple analysis case. You can change these values and save them as your own default file. For example, if you find a set of values works well for many of your clients, you can have the program load the values whenever you open the program or create a new file.

Default Assumptions

The Pension & Roth IRA Analyzer allows you to evaluate various strategies of taking distributions from IRAs and qualified pension plans. The program can simultaneously calculate up to four scenarios that involve different types of distributions, letting you decide which one is best for your clients.

The program assumes that all distributions begin on the required beginning date and that distributions are subject to minimum distributions rules under IRC §401(a)(9). The program also assumes that no one will be paying the 50% penalty for making distributions that are less than the minimum distributions; the program always makes minimum distributions. To modify the assumptions, see Input Assumptions.

Other assumptions include:

- Spousal rollover
- AGI method of calculating income taxes
- Inclusion of estate taxes
- Adjustment for a Bypass Trust

Types of Plans & Growth Rates

You can enter data for a Pension Fund (traditional IRA), a Roth IRA, and an Other Assets fund. By default, these funds grow at the same rate, but you can also enter separate growth rates for each fund. You can also enter data for multiple gift funds that grow at different rates. When entering data for the Pension Fund, the program considers a Pension Fund or (traditional IRA) as one of the following types of plans:

- Corporate and self-employed pension, profit sharing and stock bonus plans qualified under IRC §401(a) (includes Keogh or H.R. 10 plans, 401(k) plans and employee stock ownership plans (ESOPs).
- Individual Retirement Accounts (IRAs) under IRC §408(a).
- Simplified Employee Plans (SEPs) under IRC §408(k).
- Tax-sheltered annuities (except for account balances existing on 12/31/86 if kept separate for accounting purposes) under IRC §403(B).

Distributions

You can enter distributions as living expenses that are “consumed” or taken out of an analysis. From both the ordinary and the Roth IRA, you can enter distributions that are transferred to the Other Assets fund, including the Lump Sum ten year averaging distribution method. The program also contains a Pre-59½ Distributions Calculator that will prevent your clients from being subjected to the 10% penalty that results from making distributions before age 59½. The program can automatically calculate all possible life expectancies of the plan owner, the spouse, and the beneficiary, including the hybrid method and term certain method. Also, you can enter insurance premiums and proceeds, and you can select the fund from which they are paid.

Contributions

You can enter contributions to the Pension Fund (traditional IRA), Roth IRA, and the Other Assets fund. Contributing to a pension fund may cause tax savings, and you can add this savings to the Other Assets fund. Also, you can add defined benefit annuities to an analysis, such as social security benefit.

Taxes

You can calculate estate tax using taxable estate values, and the program can calculate this taxable estate automatically. You can calculate income tax on a yearly basis using separate rates for lifetime distributions, distributions after death, and growth on the Other Assets (i.e., after-tax distributions that are invested). Or you can calculate income taxes using adjusted gross income values. Other Assets growth may even be modeled as realized or unrealized capital gains.

Roth IRA Conversions

The program handles 100% conversions and multiple partial conversions for each of the four alternatives. For partial conversions, you can use the Roth IRA Conversion Optimizer to find the best percentage of an ordinary IRA to convert. To quickly generate three conversion scenarios, you can use Quick Roth IRA Conversion. You can select the fund from which conversion taxes are paid.

Reports

The Pension & Roth IRA Analyzer generates numerous reports and graphs that illustrate up to 200 years of results for analysis and comparison. You can use a Report Designer to create or modify reports. Also, in the Print Report window, you can group similar reports or reports that you will frequently print. You can send all results to a printer, text file, or a spreadsheet file.

Other Program Tips

Shortcut Keys

Use the Function Keys as shortcuts for frequently used program commands.

F1	Access the Help system.
F2	Save data to a file.
F3	Open files.
F4	Open the Copy Inputs window.
F5	Copy column values in the Custom Data Entry Window and the Living Expenses window.
F6	Access the Print window.
F7	Open the Clear Inputs window.
F8	Switch the results between Actual and Inflation Adjusted dollars.
F9	Recalculate data.
F10	Access the Reports section.
F11	Expand the Current Report.
F12	Expand the most recently viewed report.

Create Desktop Icon

To create an icon that you can click on to enter the program, choose **Create Desktop Icon** on the file menu. The program will place an icon for you to use from your desktop.

16 Color Display

To see the program in 16 colors (rather than 256), go to the Edit menu and choose **16 Color Display**.

Chapter 2

Working with Files

Frequently Used Procedures

Refer to this chapter to view instructions for procedures that you'll frequently use when working with files.

Create a New File

- On the **File** menu, click **New**. The program clears all previous data entry and resets the program's default values.

Open an Existing File

On the **File** menu, click **Open**. The **Open Inputs** dialog box appears.

In the **File name** box, enter the name of the file to open. Be sure you have selected the proper drive and folder of your file.

Save a File

On the **File** menu, click **Save**. The **Save Inputs File** dialog box appears.

In the **File name** box, type a name for the file. The program automatically adds a .pen extension to the file name.

Select the drive and folder in which to save the file.

Save an Existing File (Save As)

Open an existing file or create a new file.

On the **File** menu, click **Save As**. The **Save Inputs File** dialog box appears.

In the **File name** box, enter a name for the new file. The program automatically adds a .pen extension to the file name.

Select the drive and folder in which you want to save the file.

File Location

On the **File** menu, click **File Location**. The **File Location** dialog box appears.

Enter a directory name to which files names should be saved.

Save a File as the Default File

When you open the Pension & Roth IRA Analyzer or create a new file, the program automatically loads a set of default values, creating a simple analysis case. From the File menu, you can change these values and save them as your own default case. In other words, if you find a set of values works well for many of your clients, you can have the program load the values whenever you open the program or create a new file.

- Open an existing file or create a new file.
- On the **File** menu, click **Save Defaults**. The **Save File of Default Inputs** dialog box appears.
- In the **File name** box, enter a name for the file. The program automatically adds a .pen extension to the file name.
- Select the drive and folder in which to save the file. When you run the program, this file will open.

Load the Default File

- On the **File** menu, click **Load Defaults**. The Default file is loaded.

Note

Be sure to save the open file before loading the Default file. Also, first you must save a file as the Default file.

Delete a File

On the **File** menu, click **Erase File**. The **Erase Inputs File** dialog box appears.

In the **File name** box, enter the name of the file you want to delete (erase).

Clear Inputs

Click the Clear Inputs command to delete data from one Alternative or all Alternatives. Using the Clear Inputs command is different from excluding an Alternative from an analysis. When you exclude an Alternative, the program does not delete the data from the file. When you use the Clear Inputs command, the program does delete the data.

On the **Edit** menu, click **Clear Inputs**.

In the **Clear Inputs** window, click the Alternatives from which you want to delete data. To delete the data from all of the Alternatives, click **Clear All Alternatives**.

Click the **Clear Inputs** button.

Exit the Program

- On the **File** menu, click **Exit**. The program closes.

Note

*Be sure to save the open file before clicking the **Exit** command.*

Open a Previously Created File

- On the **File** menu, click **Reopen Files**. This allows you to access up to five previously created files.

Converting Older Version Files

The new file format (using extension “.pen”) uses XML to store information. Version 5 files are converted automatically. Older files may be converted by using a program called PenConv, included with the software. PenConv does not overwrite any data files; it just creates new ones. Use short file names with PenConv. It cannot handle long file names correctly.

Set Up a Printer

- On the **File** menu, click **Printer Setup**.

Display Results in Actual Dollars

- On the **Options** menu, click **Actual Dollars**. The program displays results that have not been adjusted for inflation.

Note

When you click this **Actual Dollars**, a check mark appears beside the option.

Display Results in Inflation Adjusted Dollars

- On the **Options** menu, click **Inflation-Adjusted Dollars**. The program displays results that have been adjusted for inflation.

Note

When you click this **Inflation-Adjusted Dollars**, a check mark appears beside the option.

View the Program in 16 Colors

- On the **Options** menu, click **16 Color Display**. Your monitor will display the program in 16 colors instead of the default 256 colors.

Note

When you click this **16 Color Display**, a check mark appears beside the option.

Limit the Number of Years to Display in a Report

Under the **Printing Options** heading in the Report Options window, click the **Years to Include in Report** box.

Enter the number of years you want the printed report to include.

Chapter 3

Overview of Data Entry

Data Entry Sections & the Reports Section

The Pension and Roth IRA Analyzer is divided into a number of data entry sections. We have developed the data entry sections according to the different areas involved in the distribution planning process.

Main Inputs
Client Info
Taxes
Living Exp.
Pension
Roth IRA
Other Assets
Contributions
Insurance
Gift Fund
Reports

For example, you will enter general information in the Main Inputs section, tax information in the Taxes section, contributions to funds in the Contributions section, and so on. You don't need to enter data in every section; the amount of your data entry depends on the depth of your analysis.

When you're finished entering your data, click the Reports button on the left side of the screen. The Reports section appears. The Reports section contains a number of Recommended, Analysis, Comparison, and Custom reports.

Next, ask yourself what exactly it is that you want to see. For example, you may want to see the effects of a distribution from the Pension Fund to the Other Assets. With that in mind, click the Analysis tab in the Reports section. Scroll through the list until you find a report that you think might answer your question. Possibly, the Pension Fund Analysis or the Other Assets Growth Analysis can answer your question.

For more information on the types of reports, see Chapter 16, *Viewing Results*. Use the Edit menu or the buttons pictured above to access the data entry sections.

Input Assumptions

It's a good idea to begin each analysis by entering data in the Input Assumptions window. Why?

- You can select when distributions, conversions, contributions, and adjustments occur.
- You can select the Alternatives that will spend the minimum distributions. By default, the program reinvests minimum distributions in the Other Assets.
- You can select the Alternatives that will reinvest the minimum distributions in the Other Assets fund.

- You can select the Alternatives that will include the 10% penalty for making Pre-59½ Distributions.

Enter Input Assumptions

On the **Edit** menu, click **Input Assumptions**.

Select **Begin** or **End** to determine the time of year that Distributions, Contributions, and Adjustments occur.

If you want to create an Alternative in which the minimum distributions are totally spent, click the Alternative under **Minimum Distributions Options**. If you do not click an Alternative, the program reinvests the minimum distributions in the Other Assets fund. By reinvesting minimum distributions in Other Assets, you can use the Other Assets fund for such things as paying Living Expenses.

Under **Apply Pre-59½ Penalties to Distributions**, click the Alternatives that will be subject to the 10% Pre-59½ Distributions penalties.

Client Information

Click Personal Information on the Edit menu to enter the names of the Planner, Plan Owner, Spouse, and Oldest Child into the Client Info section. The Oldest Child can be any non-spousal beneficiary. Also, enter a one or two line name for each Alternative you create. If a Spouse or Oldest Child is not involved in the case, clear these check boxes. The names you enter here appear throughout the program and on the printed reports. Also, if you want to print the date on your reports, you must enter the Date Prepared.

Chapter 4

Entering General Data for All Alternatives

Main Inputs Section

Enter data that applies to all Alternatives in the Main Inputs section. Begin entering data in the portion of the window that is pictured below. For help creating Alternatives, see Alternative Scenarios. Before entering data in the Main Inputs section, you may want to enter the Input Assumptions (*Chapter 3*) and complete the Client Info section (*Chapter 3*). Note: Most discussions of minimum distributions in the help manual refer to the old rules (2001 and earlier). See “How do the New Rules Work?” in the Frequently Asked Questions, page 69, for a complete discussion.

Main Inputs Section: Table of Inputs

Input	Description
First Year of Analysis	This year is the starting year for reports. The earliest year that you may enter is 1989. However, the program does not include the excess distributions or excess accumulation taxes that applied to years prior to 1997.
Pension Fund Balance	Enter the value of the Pension Fund as of the beginning of the First Year of Analysis. Do not include amounts that have been allocated for a former spouse pursuant to a Qualified Domestic Relations Order.
Roth IRA Balance	Enter the value of all assets that are in the Roth IRA.
Other Assets Balance	Enter the total value of the Other Assets fund. You can enter a non-liquid balance for the Other Assets fund in the Pension Section.
Inflation/Discount Rate	By default, the program uses the inflation rate for the after-death discount rate. The program uses the After-Death Discount Rate to adjust after-tax assets for growth after death and to calculate the present value of future after tax distributions. To enter different rates, click  next to the Inflation Rate box.

Birth Dates

If you have entered names for the Owner, Spouse, and Oldest Child in the Client Info section, these names appear in the Birth Dates box. Enter birth dates for the Owner, the Spouse, and the Oldest Child (spouse's beneficiary) in month/day/year format. The program uses the birth dates to calculate life expectancies for the plan owner, the spouse, and the spouse's beneficiary. The Oldest Child can be any non-Spousal beneficiary.

If a Spouse or Oldest Child is not part of the analysis, clear these check boxes.

Alternative Scenarios

After you've entered data in the top portion of the Main Inputs section, begin creating your Alternative Scenarios. You will always enter data for Alternative 1. To create other Alternatives click the word Here in each column and make the appropriate changes to each Alternative. If you want to create identical or nearly identical Alternatives use the Copy Alternative command on the Edit menu. An image of Alternative 1 appears below. Explanations of each input follow:

	<input checked="" type="checkbox"/> Include #1
Growth Rates:	10.00% <input style="float: right;" type="button" value="+"/>
Beneficiary:	Spouse
Year Owner Dies:	Calc: 2016 <input style="float: right;" type="button" value="+"/>
Year Benef. Dies:	Calc: 2022 <input style="float: right;" type="button" value="+"/>
Spousal Rollover:	Yes
Distribution Options:	Start in Req'd Yr Use 2002 Regs
Estate Analysis:	<input checked="" type="checkbox"/> Max. Deferral

Alternative Scenario: Table of Inputs

Input	Description
Growth Rates	Enter the annual percent increase for all of the funds (Pension Fund, Roth IRA, and Other Assets). If these funds are growing at different rates, click <input style="vertical-align: middle;" type="button" value="+"/> to enter separate growth rates for each fund.
Beneficiary	Select Spouse, Child or None. For more information about selecting a beneficiary or how the program handles beneficiaries, see Chapter 21, Reference <i>Material</i> .
Year Owner Dies	You may choose to calculate the analysis assuming that the owner survives the calculation, that the owner dies in the year based on the plan owner's life expectancy, or that the owner dies during a year you specify.
Year Benef. Dies	You may choose to calculate the analysis assuming that the beneficiary survives the calculation, that the beneficiary dies in the year based on the beneficiary's life expectancy, or that the beneficiary dies during a year you specify.
Spousal Rollover	Click the button next to this heading to specify the conditions of a

spousal rollover. Choose from the following options:

- Spouse rolls over the IRA at the owner's death.
- Spouse does not roll over the IRA.
- Spouse rolls over the IRA in the year you specify.

Distribution Options

In some circumstances, plan owners may begin making minimum distributions at times other than the required beginning date. A worksheet will pop up when you click on the Required Year button. Choose from the following options:

- Minimum distributions begin when the owner turns 70 ½.
- Owner defers minimum distributions one year.
- Owner retires after age 70 ½.
- Owner makes TEFRA 242 selection. (The TEFRA 242 designation allows a plan owner to delay commencement of benefits until actual retirement, even if it occurs after age 70½. It assumes a catch-up distribution for the years that were deferred after the age 70½ year.)

Estate Analysis:
Max. Deferral

Whenever the term certain method is applied, the heir has the opportunity to defer the withdrawal of the plan balance after the plan owner has died or after both parents have died in spousal beneficiary cases.

The Estate Analysis: Max Deferral check box only affects one value throughout the program: the Net After-Tax Assets. If this check box is selected, the program will include, in the Net After-Tax Assets, the Present Value of Future After-Tax Distributions that the heir can make over his or her term certain life expectancy. If you clear this check box, the program will not include the Present Value of Future After-Tax Distributions in the Net After-Tax Assets, and it will assume that the heir takes a lump sum distribution from the Pension Fund upon the death of the second-to-die. By default, the program taxes the distribution and reinvests it in the Other Assets. You can adjust the after-tax assets for growth after death using the After-Death Discount Rate.

Tip

A good way to visualize the effects of Estate Analysis: Max Deferral is to view the Estate Analysis Report. Create one Alternative in which you select Estate Analysis: Max Deferral and one in which you don't. Then compare the Estate Analysis Reports for both Alternatives.

Multiple Alternatives

Click Copy Alternative to copy data from one Alternative to other Alternatives. This is a good way to create Alternatives with nearly the same data. For instance, after you copy an Alternative you can then change only the specific items that make the Alternatives different, such as Year Owner Dies or Growth Rates.

On the **Edit** menu, click **Copy Alternative**. The Copy Inputs window appears.

In **Copy From** box, click the Alternative from which you want to copy data.

In the **Copy To** box, click the Alternative(s) that will receive the copied data.

Click the **Copy Inputs** button.

Note

*You do not have to be working in the Main Inputs section to perform this procedure. However, to avoid confusion, you may want to use **Copy Alternative** to set up the basis for your Alternatives before you enter data in the rest of the program.*

Chapter 5

Entering Tax Information

Taxes Section

Use the Taxes section to enter income taxes and estate tax information to an analysis. The program calculates income taxes using one of the following methods:

- **Income Tax Rates** method. If you use entered rates, the program provides a calculator to help you pick the proper rates.
- **AGI method.** By default, the program uses the AGI method.

Income Tax Rates Method

When calculating income tax using entered rates, the income tax rate should include state and federal tax rates. It should include (a) possible state income tax deductions, (b) the possible loss of a full deduction because of the rule reducing itemized deductions by 3% of the AGI for certain high income taxpayers, and (c) the impact of the alternative minimum tax.

Tax Rates Tab: Table of Inputs

Input	Description
Tax on Pension Fund Distributions	Distributions from retirement plans are generally subject to federal income taxes, and in most cases, state and local income taxes. The program can calculate income tax on lump sum distributions with ten year averaging.
Tax Rate During Conversion	A qualified conversion from one Roth IRA to another Roth IRA is tax-free regardless of the taxpayer's AGI. However, qualified conversions from Ordinary IRAs to Roth IRAs are considered taxable distributions, and they are taxed accordingly. However, if conversions occur before age 59½, the conversion amounts are not subject to the 10% penalty tax on Pre-59½ distributions.
Tax on Growth of Other Assets	The program calculates income tax on the liquid portion of the Other Assets fund each year. You can enter a non-liquid balance to reduce taxes. Also, the program allows you to use a capital gains tax rate for growth of Other Assets.
Tax on Pension Fund at Death	Even after a plan owner's death, beneficiaries receiving distribution benefits must pay income tax as "income in respect of a decedent." Funds left to charity, however, may be free of

income tax. Also, funds left to a spouse may be “rolled-over” on a tax-deferred basis to an IRA.

Custom button To enter different tax rates for each year, click the Custom button. For more information on Custom Data Entry, see Chapter 15, *Custom Data Entry*.

Income Tax Rate Calculator

If you’re calculating income tax using entered rates, the Income Tax Rate Calculator can calculate the rates for you. If you need help figuring tax rates, click the computer graphic that’s next to each field. The Income Tax Rate Calculator will help you find the appropriate rate.

Using the Income Tax Rate Calculator

Click  next to the tax rate you want to calculate. The Income Tax Rate Calculator appears.

In the Filing Status group box, click Single, Married, Filing Jointly, or Head of Household.

Enter the plan owner’s **Adjusted Gross Income**.

Enter the **Number of Exemptions** that the plan owner claims.

Take note of the **Income Tax**.

Click **Average Tax Rate** or **Marginal Tax Rate** for calculating income tax.

AGI Method

By default, the program uses the AGI method. The program only uses the income that you enter in the AGI section to calculate income taxes. Other parts of the program cannot “see” or use the income that you enter here. For example, let’s say you enter an AGI of \$60,000, and you also enter a \$20,000 living expense paid from Other Assets. The program cannot pay the living expense using the \$60,000 unless you’ve included the \$60,000 in the Other Assets. To pay the living expense, you could enter \$40,000 in the AGI section. Then you could enter a \$20,000 Taxable Annuity (using the Pension section). The program adds Taxable Annuities to the Other Assets.

AGI Tab: Table of Inputs

Input	Description
Owner's AGI	Enter the Owner's AGI. This is the total amount of taxable income that you haven't already entered into the program. For example, if you entered any Taxable Annuities, do not include them in the Owner's AGI box. Taxable Annuities are considered income, so you don't want to enter the same income in different portions of the program, or the program taxes the income multiple times.
Growth	Enter the annual percent increase of the Owner's AGI.
From/To Boxes	Use these boxes to enter the span of years for which the AGI applies. To enter AGIs for specific years, click Override with Custom AGI Values. For override procedures, see Chapter 15, <i>Custom Data Entry</i> .
1, 2, 3, 4	The numbers in the Adjusted Goss Income section represent the Alternatives. Select the Alternatives for which the AGI applies.
Estate Analysis AGI	This is the Heir's AGI. By default, the program includes the Heir's AGI in all Alternatives. To exclude the Heir's AGI from an Alternative, enter a zero value. Enter a growth rate.
Tax on Growth of Other Assets	Growth of Other Assets is taxable. Enter the tax rate for the growth of the Other Assets fund. This does not represent the tax rate on the growth of the Heir's Other Assets.
Override/Custom Buttons	For more information on Custom Data Entry, see Chapter 15, <i>Custom Data Entry</i> .

Estate Taxes

Recent changes in estate tax law have resulted in higher exemption amounts and other changes affecting estate tax calculations.

Pension and Roth IRA Analyzer allows you to select between three potential scenarios.

- 2011 Sunset
- 2010 Repeal in 2010+
- 2009 Rates in 2009+ (program default)

These choices will affect program computations for 2010 and later years only.

Explanation:

2011 Sunset (current law with sunset): Assumes repeal occurs in 2010 and prior law returns in 2011 with a 55% top rate and \$1 million exemption. This is way the tax law is currently written. This may be a reasonable assumption if one believes that no changes to the current law are likely and that the sunset provisions will prevail. One of the other two choices may be a better assumption if one believes that the sunset provisions will not be implemented due to future law changes.

2010 Repeal in 2010+ (current law modified to remove sunset and make repeal permanent): Assumes repeal becomes effective in 2010 and stays effective thereafter. This is what was originally intended by the tax writers, but ultimate repeal remains uncertain due to the inclusion of sunset provisions. This may be a reasonable assumption if one believes that the sunset provisions will not be implemented and repeal will ultimately prevail.

2009 Rates in 2009+ (current law modified to continue estate tax with no repeal): Assumes repeal never occurs and last scheduled rates are used in future years. This may be a reasonable assumption if one believes that repeal is unlikely to occur.

By default, the program includes estate taxes in each analysis. The taxable estate is the total gross estate of a plan owner after deducting debts, applicable taxes, charitable or religious deductions, benefits to a surviving spouse, losses, and any specific exemptions. This includes the balances of the Pension Fund, Roth IRA, and Other Assets. You can, however, calculate the taxable estate by entering its total value based on after-tax assets. The program applies the federal estate death tax credit to the combined balance of the Pension, Roth IRA, and Other Assets. This tax rate ranges from 37% to 55%, depending on the size of the estate. If a particular state has a higher tax than the credit, the program still uses the amount of the credit.

Note

By default, the middle check box above is checked. To calculate the Taxable Estate based on after-tax assets, clear the middle check box. Then the Taxable Estate Amount section appears.

Estate Tax Tab: Table of Inputs

Input	Description
Include Estate Tax Calculations	By default, the program includes estate tax calculations. Clear this check box to exclude estate tax calculations.
Taxable Estate= Other Assets + Pension Fund + Roth IRA	Normally the program calculates estate taxes based upon the Pension Fund, Other Assets, and Roth IRA. However, you can enter your own taxable estate values if you prefer. For example, you can enter different amounts for different years with each amount growing at its own rate (see Taxable Estate below).
Taxable Estate	If you have cleared the check box labeled Taxable Estate = Other Assets + Pension Fund + Roth IRA, the Taxable Estate Amount area appears. This allows you to enter your own values for the taxable estate.
Growth	Enter the annual percent increase of the Taxable Estate Amount.
From/To Boxes	Use these boxes to enter the span of years for which the Taxable Estate Amount applies. To enter Taxable Estate Amounts for specific years, click Override with Custom Taxable Estate Values. For override procedures, see Chapter 15, <i>Custom Data Entry</i> .
1, 2, 3, 4	These numbers represent the Alternatives. Select the Alternatives for which the Taxable Estate Amount applies.
Grow Estate From (year) instead of entered "From" Year	In general, you'll be planning for the future, so you'll probably want to adjust for inflation. By default the program applies the growth rate on the Taxable Estate amounts from the first year of analysis instead of from the "From" year. This ensures that the program has adjusted the Taxable Estate Amount for inflation.
Override with Custom Taxable Estate Values	Click this button to enter Taxable Estate Amounts on a year-by-year basis instead of over a span of years. When you enter Custom Taxable Estate Amounts, the program replaces the initial amounts with the custom amounts. For more information on Custom Data Entry, see Chapter 16, <i>Custom Data Entry</i> .

Bypass Trust Tab

Adjust Taxable Estate for
Bypass Trust / Bypass
Trust Growth Rate

By default, if the plan owner has a spousal beneficiary, the program automatically adjusts the taxable estate for a bypass trust. This means that the plan owner will combine a bypass trust with a marital deduction trust. Such a combination is sometimes referred to as an A-B Trust. In an A-B Trust, the estate owner places an amount of money equal to the equivalent exemption (based on the unified credit) in a bypass trust therefore excluding it from the estate of the second-to-die. Of course, this results in a lower federal estate tax. The equivalent exemptions based on the unified credits are scaled according to the Taxpayer Relief Act of 1997. Although the program automatically adjusts the estate in this manner, you must enter the growth rate of the trust.

If you don't want to adjust the taxable estate for a bypass trust, for each alternative, click No.

Section 691(c) Deduction

Upon the death of a plan owner, the balance remaining in retirement plans may be subject to federal estate tax and it may also be subject to state inheritance or estate taxes.

However, the Section 691(c) Deduction allows heirs to limit the amount of tax on distributions from inherited plans. If you include estate tax calculations in an analysis or if there is deferred income tax, you need to apply the Section 691(c) Deduction. Benefits left to charity may be exempt from estate taxes. You can apply the Section 691(c) Deduction using the Annuity method or the Front Loaded method.

To see how the program applies the Section 691(c) Deduction, go to the Reports section, click the Analysis tab, and view the Taxable Amount of Pension Fund report.

Using the Annuity Method

The Annuity method is the program's default method of applying the Section 691(c) Deduction. Using the estate tax that is attributable to the Pension Fund, the program calculates the value of the Section 691(c) Deduction. Next, it divides the Section 691(c) Deduction by the Pension Fund Ending Value to arrive at a deduction ratio. By multiplying the annual distribution by the deduction ratio, the program calculates an annual deduction. Each year, the program subtracts the annual deduction from the heir's distribution, and the heir pays tax on the remaining amount of his or her distribution. The annual deduction reduces the remainder of the Section 691(c) Deduction each year until it is totally consumed.

Here's another way to look at the Annuity Method

Section 691(c) Deduction = Estate Tax on Pension Fund

Deduction Ratio = Section 691(c) Deduction / Pension Fund Ending Value

Annual Deduction = Annual Distribution * Deduction Ratio

Taxable Amount of Annual Distribution = Annual Distribution – Annual Deduction
 Remainder of Section 691(c) Deduction = Section 691(c) Deduction – Annual Deduction

Using the Front Loaded Method

Using the estate tax that is attributable to the Pension Fund, the program first calculates the value of the Section 691(c) Deduction. By applying the Front Loaded method, the program subtracts each distribution that the heir makes from the calculated Section 691(c) Deduction until the deduction is entirely consumed. These distributions are essentially tax-free. Once the Section 691(c) Deduction is used, the distributions start generating income tax.

Filing Status

When calculating income tax from adjusted gross incomes, you need to enter the Filing Status of the Owner, Spouse, and Oldest Child (spouse's beneficiary). If you've entered names for the Owner, Spouse, and Oldest Child in the Client Info section, the names appear in the Filing Status section.

Enter Filing Status

Click the **Filing Status** tab. When clicked, the tab is highlighted in yellow.

In the **Number of Exemptions** column, enter the number of exemptions for each **Taxpayer**.

In the **Itemized Deductions** column, enter the dollar amount of itemized deductions for each **Taxpayer**.

In the **Filing Status** column, click each box.

In the list that appears, click the filing status for each **Taxpayer**.

Conversion Taxes

Conversions to a Roth IRA from either an Ordinary IRA or another Roth IRA are allowed only if they are qualified according to Code Sec. 408(d)(3) requirements (60-day rollover rules). A qualified conversion from one Roth IRA to another Roth IRA is tax-free regardless of the taxpayer's AGI. However, qualified conversions from Ordinary IRAs to Roth IRAs are considered taxable distributions, and they are taxed accordingly. However, they are not subject to the 10% penalty tax on Pre-59½ Distributions.

Note

Plan owners cannot convert an ordinary IRA to a Roth IRA if their AGIs for the year exceed \$100,000, or they are married filing a separate return for the year. Taxpayers who made qualified conversions before Jan. 1, 1999 had the ability to spread-out conversion tax over 4 years, beginning with the year that the distribution took place. (§302)

Select the Fund from which to Pay Conversion Taxes

In the Taxes section, click the **Conversion Tax** tab. When clicked, the tab is highlighted in yellow.

Click or clear Spread Out Payment of 1998 Conversion Tax.

Click the **Alternative 1** box.

In the list that appears, click the fund from which conversion taxes will be paid.

Repeat Steps 3-4 for the other Alternatives.

Note

If you're using Quick Conversion, you do not need to enter conversion taxes in the Taxes section. Quick Conversion automatically enters conversion taxes.

Spread Out Payment of 1998 Conversion Tax

- If a Conversion was made in 1998, the plan owner had the option of paying conversion taxes over a four-year period. This option is not available to conversions made after 1998.

Chapter 6

Modeling Income and Expenses

Income and Expenses Section

Use the Income and Expenses section to enter distributions that are “consumed” and those that are received as income. Expenses are not transferred to the Other Assets fund.

Income

Income—money coming in to the client—is used to pay expenses and is then reinvested in the Other Assets category. Income shows up on the Distributions report as “Net Amount from Income.”

Input	Description
Add Expense button	Click the Add Expense button to enter a new expense.
Remove button	Click the Remove button to delete the highlighted expense.
Description	Enter a short description for each income or expense. The description is optional.
Annual Income	Enter the net amount of money that your client has as income annually.
Invest Income In	Select the fund in which the income will be invested.
Annual Increase	Enter the amount the income will increase annually.
Receive Income From	Use these boxes to enter the span of years that the income will be received. To enter income on a year-by-year basis, click the Year-by-Year Income button.
Year-by Year Income	Click this button to enter income for specific years instead of entering income that covers a span of years.
Apply Growth Rate from (first year of analysis)(instead of first year expense applies)	In general, you’ll be planning future income, so you’ll probably want to adjust income for inflation. By default the program applies the growth rate on the income from the first year of analysis instead of from the first year that the plan owner needs the income. This ensures that when the income is distributed, it has been adjusted for inflation.

Expenses

Descriptions of living expenses appear in top portion of this section. A description of a living expense appears by default. For example, the entry may read “\$0 from 1999 to 2057.” This description changes as you enter data in the boxes below the description box. The numbers on the right side of the box (1, 2, 3, 4) represent the Alternatives that include the expense. Expenses can now be specified to be not grossed up for income taxes. Uncheck the box labeled “Amount Needed After Taxes” to indicate that the amount needed for a given living expense should be decreased by the taxed paid on that living expense. Living expenses are now paid first out of income.

Input	Description
Add Income button	Click the Add Income button to add to enter a new income.
Remove button	Click the Remove button to delete the highlighted income.
Description	Enter a short description for each income. The description is optional.
Amount Needed	Enter the net amount of money that your client needs for living expenses annually. The program distributes the gross amount and applies the appropriate taxes to each expense. Do not add the minimum distribution to the Amount Needed. If the Amount Needed is less than the minimum distribution, the program adds the remainder of the minimum distribution to Other Assets (unless you specify otherwise in the Input Assumptions).
Pay Expenses From	Select the fund from which living expenses will be paid. Be sure that the fund has enough money to pay the expense(s). If the expense uses the entire fund, and you’ve specified that the expense is needed for a longer time period than the fund will last, the program begins paying the expense from the other funds.
	Since you indicate the fund from which expenses are paid, some good reports that reflect living expenses are the Distributions Breakdown, the Pension Fund Analysis, the Roth IRA Analysis, the Other Assets Analysis, the Roth IRA Distributions report, or the Total Pension and IRA Distributions report.
Growth Rate	Enter the annual percent increase of the living expense.

Make Payments From	Use these boxes to enter the span of years that the living expense is needed. To enter living expenses on a year-by-year basis, click the Year-by-Year Expenses button. Be sure that the fund from which the expense(s) will be paid has enough money to cover the time span that you indicate in the From/To boxes. If the expense uses the entire fund, and you've specified that the expense is needed for a longer time period than the fund will last, the program begins paying the expense from the other funds.
Year-by Year Expenses	Click this button to enter living expenses for specific years instead of entering living expenses that cover a span of years.
Apply Growth Rate from (first year of analysis)(instead of first year expense applies)	In general, you'll be planning future living expenses, so you'll probably want to adjust living expenses for inflation. By default the program applies the growth rate on the expense from the first year of analysis instead of from the first year that the plan owner needs the expense. This ensures that when the living expense is distributed, it has been adjusted for inflation.

Chapter 7

Modeling Pension Fund Activity

Pension Section

Use the Pension section to transfer distributions from the plan owner's Pension Fund to the Other Assets. The distributions that you enter here are not consumed, only transferred. The program applies taxes to Pension Fund distributions. You can also use the Pension section to access the Pre-59½ Distributions Calculator or the Lump Sum Distribution window. Also the Pension section enables you to add Taxable Annuities via the Custom Data Entry window.

Input	Description
Description (top)	In this box, enter a short description of the Pension Fund. The description is optional.
12/31/(year) Pension Fund Balance	Enter the 12/31 balance of the Pension Fund for the preceding year. The program requires a 12/31 balance for required minimum distribution calculations. If you entered a Pension Fund balance in the Main Inputs section, the balance should appear in this box.
12/31/(year) Non-Deductible Balance	Enter the Non-Deductible portion of the Pension Fund balance. The program will not tax the Non-Deductible Balance. Non-Deductible Balances occur when plan owners do not qualify for deductions on Pension Fund contributions.
Description (bottom)	Enter a short description for each distribution. The description is optional.
Distribution	Enter the annual amount of each Pension Fund distribution.
	<p>Note</p> <p><i>The program always distributes at least the required minimum distribution from the Pension Fund, so don't worry if a distribution is too small. If you enter a distribution that is larger than the Pension Fund balance, the program distributes the balance. Also, if you enter a distribution in dollars and a distribution in percent (Custom Data Entry window) for the same year, the program calculates and applies the dollar amount first.</i></p>
Growth Rate	Enter the annual percent increase of the distribution.
From/To Boxes	Use these boxes to enter the span of years for which the distribution is needed.

Apply to Alternative	These numbers represent the Alternatives. Selected check boxes indicate which Alternatives will include the distribution.
Apply Growth Rate from (current year)(instead of entered "From" year)	In general, you'll be planning future distributions, so you'll probably want to adjust distributions for inflation. By default the program applies the growth rate on the distribution from the first year of analysis instead of from the first year that the plan owner needs the distribution. This ensures that when the distribution occurs, the program has adjusted it for inflation.
Custom Pension Fund Distributions	Click this button to enter distributions on a year-by-year basis instead of over a span of years. The program adds these distributions to any distributions you add in the Pension section.

Pre-59½ Distributions Button

Click this button to enter Pre-59½ Distributions to an analysis.

Lump Sum Distributions Button

Click this button to enter Lump Sum Distributions to an analysis. Use the Lump Sum Distribution Window to distribute the total Pension Fund balance to the Other Assets fund. The 10-Year Averaging option is available for plan owners who were at least age 50 on January 1, 1986. The program calculates income tax using 1986 tax rates (see IRS Announcement 87-105, 1987-48 I.R.B. 32).

Chapter 8

Modeling Pre-59½ Distributions

The Pre-59½ Distributions Calculator

Use the Pre-59½ Distributions Calculator to calculate the “substantially equal periodic payments” that plan owners need to make in order to avoid the 10% penalty for early distributions. We’ve divided this process into three steps. To access the Pre-59 ½ Distributions Calculator, click **Pre-59½** on the toolbar. The Pre-59½ distributions screen shows only those inputs that are relevant to the current case. If the input is irrelevant to the case, the input field will disappear. Enter information in order (from top to bottom).

Input	Description
Starting Date:	Enter the first year that the plan owner needs the Pre-59½ Distribution. When the Distribution Frequency is Semiannual, Quarterly, or Monthly, the Starting Date determines the date of the pre-50 ½ distribution.
Distribution Year:	For most cases, this input should be the same as the year of the Starting Date. However, if your client started taking Pre-59½ Distributions in a previous year, you can use this input to calculate the distributions for the current year. Set the Starting Date to be when Distributions started, and enter the current year as the Distribution Year.
Distribution Method:	There are three methods for calculating early distributions: Minimum Distributions, Amortization, and Annuitization Method (see the IRS Notice 89-25 in Chapter 21, Reference Materials.) “Switch: Min. Distrib” should be used for clients who are already taking distributions and want to switch to the new minimum distribution method. It causes the distribution calculation to be based on the balance in the plan as of the point that the distributions begin (rather than the balance at the end of the previous year).
Calculation Method:	See “Revenue Rule 2002-62” in Chapter 21, Reference Materials, for more information about this ruling. Pre-2002, for most cases, select IRS Notice 89-25. Private Letter Rulings (among them 9531039, 9010075, and 9241063) illustrate an annual recalculation of distributions for the

Annuitization Method and amortization methods. More specifically, in years after the first year, the distributions are recalculated using the balance as of the beginning of each year. If you wish to see the distributions calculated using the methodology of the Letter Rulings, select “Private Letter Rulings” for the choice. The program includes disclaimer language on all reports that use the method of the Private Letter Rulings. These Letter Rulings deal with cases involving the start of new qualifying distributions. They do not deal with cases involving distributions that have already commenced.

- Plan Balance: Enter the value of all assets in the plan. The Minimum Distributions rules require that you enter the balance of the plan as of December 31 of the year preceding the first year of analysis. After the first year, the Private Letter Rulings also use the 12/31 plan balance to calculate distributions. This input is enabled only when it is relevant to the calculations. When Rev. Rule 2002-62 applies, the minimum distributions method is calculated using the balance as of the first distribution in each year.
- Expected Plan Growth: Enter the expected annual growth of the plan. This rate is not used to calculate the distributions but is just used for projections.
- Distribution Frequency: Select a Distribution Frequency. Plan owners can make pre-59½ distributions Annually, Semiannual, Quarterly, or Monthly. Depending on the Distribution Frequency, the Plan Balance is calculated differently. For example, if the Distribution Frequency is Annual, the growth is compounded only once each year. If it is Semiannual, compounding occurs twice. If it is Quarterly, compounding occurs four times each year. If it is Monthly, then compounding occurs every month.
- Joint/Single Life Exp.: Select whether to base the calculation of distributions on a single or a joint life expectancy.
- Birth Dates: Enter the owner’s birth date and the beneficiary’s birth date in month/day/year format. The beneficiary’s birth date is used to determine joint life expectancy factors.
- Use Maximum Interest Rate: Rev. Rul. 2002-62 defines the maximum “reasonable interest rate” to be the highest applicable federal midterm rate of the two months prior to the first distribution. Answering yes to this question causes the program to fill in

the “reasonable interest rate” automatically, disabling that input field. If no federal midterm rate has been entered, the program displays a message and the "Use Maximum Interest Rate" input is set to “No.”

- “Reasonable” Interest Rate: If the Distribution Method is Annuitization or Amortization, enter a “Reasonable” Interest Rate (see Chapter 21, *Reference Material*). To create a Comparison Report, you need to enter a Reasonable Interest Rate.
- Use Uniform Life Table: If the owner is still alive, the life expectancy is taken straight from the Uniform Lifetime Table. Simply find the owner’s age on the table (it covers ages 70 through 115), and use the life expectancy listed. For this situation, the only change caused by the 2002 final regulations was to update the numbers in the Uniform Lifetime Table.
- Annuity Factor Table: If the Distribution Method is Annuitization, select the Mortality Table (or details, see Chapter 21, *Reference Material*) that the program will use to calculate annuity factor. To create a Comparison Report, you need to choose an Annuity Factor Table.

Step 2: Choose a Distribution Method

Input	Description
Distribution Method	There are three methods for calculating early distributions: Minimum Distributions , Amortization , and Annuitization Method (see the IRS Notice 89-25 in Chapter 11, <i>Reference Material</i>).
"Reasonable" Interest Rate	If the Distribution Method is Annuitization Method or Amortization , enter a " Reasonable " Interest Rate (see Chapter 11, <i>Reference Material</i>). To create a Comparison Report , you need to enter a Reasonable Interest Rate .
Calculation Method	For most cases, select IRS Notice 89-25. Private Letter Rulings (among them 9531039, 9010075, and 9241063) illustrate an annual recalculation of distributions for the Annuitization Method and amortization methods. More specifically, in years after the first year, the distributions are recalculated using the balance as of the beginning of each year. If you wish to see the distributions calculated using the methodology of the Letter Rulings, select "Private Letter Rulings" for the choice. The program includes disclaimer language on all reports that use the method of the Private Letter Rulings. These Letter Rulings deal with cases involving the start of new qualifying distributions. They do not deal with cases involving distributions that have already commenced.
12/31/(year) Plan Balance	Enter the value of all assets in the plan. The Minimum Distributions rules require that you enter the balance of the plan as of December 31 of the year preceding the first year of analysis. After the first year, the Private Letter Rulings also use the 12/31 plan balance to calculate distributions. This input is enabled only when it is relevant to the calculations.

Chapter 9

Modeling Roth IRAs

Roth IRA Section

Use the Roth IRA section to enter Roth IRA Conversions and Roth IRA Distributions to an analysis. Roth IRA Conversions take place at the same time as Pension Fund Distributions. However, when contributions, pension fund distributions, and conversions all occur in the same year, the program makes them in the following order:

- Contributions
- Distributions
- Conversions

The program uses this method because minimum distributions are subject to different tax rules than conversions. The program calculates minimum distributions regardless of the conversion amount. Also, plan owner's can make contributions and convert them without any problem. Furthermore, distributions can reduce conversions. For example, if a \$100,000 fund has a minimum distribution of \$50,000 and a conversion amount of \$70,000, the conversion amount will be reduced to \$50,000.

Note

If you're using Quick Conversion, you do not use the Roth IRA section to enter conversions.

Roth IRA Conversions

Conversions to a Roth IRA from either an Ordinary IRA or another Roth IRA are allowed only if they are qualified according to Code Sec. 408(d)(3) requirements (60-day rollover rules).

There is an income test that determines whether or not a plan owner is eligible to convert. Plan owners cannot convert an IRA to a Roth IRA during any year in which their AGIs exceed \$100,000 or during any year in which they are married and filing separate tax returns. If plan owners pass the income test, they can convert an unlimited amount of money from the ordinary IRA to the Roth IRA. If plan owners made conversions in 1998, they had the opportunity to pay the conversion taxes over a four-year period by adding 25% of the conversion amount to their gross incomes for each of the four years.

Note

If you're using Quick Conversion, you do not use the Roth IRA section to enter conversions.

Enter a 100% Conversion

Click the **Conversions** tab. When active, the tab is highlighted yellow.

Enter **100%** in the Alternative column. Enter the year of the conversion in the **Year** column.

In the Taxes section, click the **Conversion Tax** tab and select the fund from which conversion taxes will be paid.

Enter Partial Conversions

When entering conversion amounts, you can enter dollar amounts or percentages to convert. The program treats values less than 100 as percentages. Due to growth rates, contributions, living expenses, and the source of conversion tax payments, it is difficult to model a year-by-year conversion scenario with equal conversion amounts. However, we've provided the following example to demonstrate a simple conversion over four years. Let's assume the Pension Fund balance is \$100,000.

Click the **Conversions** tab. When active, the tab is highlighted yellow.

In the **Year** column, enter the years in which the conversions occur.

Enter one quarter of the Pension Fund balance (\$25,000) for years one, two, and three.

Enter 100% for the fourth year.

In the Taxes section, click the **Conversion Tax** tab and select the fund from which conversion taxes will be paid.

Depending on growth rates, living expenses, contributions, and the source of conversion tax payments, the fourth year conversion amount may be higher or lower than years one, two, and three.

Note

If you want to convert the plan over a four-period, do not enter 25% for four years. This would only convert 25% of the total fund each year.

Custom Roth IRA Conversions

Click this button to enter conversions over a greater number of years than is possible from the Conversions tab. The program adds these conversions to any conversions that you enter on the Conversions tab.

Roth IRA Distributions

Qualified distributions from a Roth IRA are not included as income and are tax-free. Non-qualified Roth-IRA distributions are taxable, including distributions within five-years of the first Roth IRA contribution. For distributions caused by rollovers from a non-Roth IRA, the five-year period begins with the tax year in which the rollover occurred. In the case of Pre-59½ distributions, the taxable portion of Pre-59½ distributions will be penalized subject to the 10% penalty (exceptions applicable to premature distributions from non-Roth IRAs). If plan owners make nonqualified distributions, contributions to the Roth IRA will be recovered tax-free before earnings are taxed.

However, if plan owners make distributions within the five-year period, the distributions could still be tax-free. This is because Roth IRA distributions are paid from any contributions that plan owners may have made that year. Since plan owners pay taxes when they contribute money to a Roth IRA, they do not have to pay taxes on this same money when they withdraw it from the Roth. But if plan owners make distributions (within the five-year period) that exceed the amount of the contributions, then the plan owners must pay taxes on the excessive distributions.

After the five-year period, a Roth IRA distribution is tax-free if it meets the following criteria:

- The distribution occurs on or after age 59½ or death.
- The distribution occurs on account of disability.
- The distribution pays expenses for qualifying first time homebuyers.

Distributions from a Roth IRA will not be subject to the required distribution rules of Code Sec. 401(a)(9)(A) or the incidental death benefit rules of Code Sec. 401(a).

Roth IRA Distributions Tab: Table of Inputs

Input	Description
Description (top)	Enter a short description for each distribution. The description is optional.
Starting Balance	Enter the balance of the Roth IRA. If you've entered a balance in the Main Inputs section, it should appear in this box.
Description	Enter a description for the Roth IRA. This is optional.
Distribution	Enter the annual amount of each Roth IRA distribution.
Growth Rates	Enter the annual percent increase of the distribution.
From/To Boxes	Use these boxes to enter the span of years for which the distribution is needed.
Apply to Alternative	These numbers represent the Alternatives. Selected check boxes indicate which Alternatives will include the distribution.
Apply Growth from (first year of analysis)(instead of "From" Year)	In general, you'll be planning future distributions, so you'll probably want to adjust distributions for inflation. By default the program applies the growth rate on the distribution from the first year of analysis instead of from the first year that the plan owner needs the distribution. This ensures that when the distribution occurs, the program has adjusted it for inflation.
Custom Roth IRA Distributions	Click this button to enter distributions on a year-by-year basis instead of over a span of years. The program adds these distributions to any distributions that you enter on the Distributions tab.

Chapter 10

Quick Conversion & the Roth IRA Conversion Optimizer

Quick Roth IRA Conversion

Use Quick Conversion to determine if the plan owner should make a 100% conversion to a Roth IRA in the current year. The program creates three conversion scenarios allowing you to analyze and compare the effect of each scenario on the Net After-Tax Assets. To access Quick Conversion click Quick Conversion on the toolbar.

Note

One of the scenarios that Quick Conversion creates pays conversion taxes from the Other Assets. To create an accurate analysis, your client should have enough money in the Other Assets to pay the conversion taxes. If not, the program will create an Other Assets balance large enough to pay the taxes. Also, you do not need to use Quick Conversion for Roth IRA scenarios. You can use the Roth IRA section if you'd like. See Chapter 9, Modeling Roth IRAs.

Step 1: Get Ready

Quick Conversion creates three conversion scenarios allowing you to analyze and compare the effect of each scenario on the Net After-Tax Assets. If you want the program to create these scenarios, before you begin using Quick Conversion, enter all Main Inputs section data, including data for Alternative 1. Any data in Alternatives 2 and 3 will be replaced with new data.

Step 2: Entering Tax Information

You can calculate income taxes using the plan owner's adjusted gross income or by entering tax rates.

- If you click **Calculate taxes from an AGI**, enter the plan owner's adjusted gross income. If the plan owner is already making required minimum distributions, do not include the minimum distributions in the AGI. The program will do this automatically.
- If you click **Use Rates to calculate taxes**, enter the tax rate that the owner normally uses in the **Normal Tax Rate** box. Then enter a tax rate for the conversion period in the **During Conversion** box. If you want the program to calculate these rates for you, click the **Calculate** button next to each of the boxes to open the Income Tax Rate Calculator.

Step 3: Select How Much to Convert

Quick Conversion will convert 100% of the ordinary IRA, or you can use the Roth IRA Optimizer to find the best percentage of the IRA to convert.

- If you want the program to convert 100% of the IRA, click **Convert 100% of the Ordinary IRA**.
- If you want to use the Roth IRA Optimizer, click **Calculate the optimum percentage to convert**. Then, when you click **Use Scenarios**, the Roth IRA Conversion Optimizer appears.

Step 4: Using the Calculations

Quick Conversion creates three conversion scenarios:

- No Conversion to the Roth IRA.
- 100% conversion in (current year): pay taxes from the Other Assets
- 100% conversion in (current year): pay taxes from the Roth IRA

If you want these three scenarios as Alternatives 1, 2, and 3, then click the Use Scenarios button.

The Roth IRA Conversion Optimizer

The Roth IRA Conversion Optimizer helps you and your clients visualize the effects of partial conversions. This feature calculates the best percentage of the Ordinary IRA that plan owners should convert to a Roth IRA. Using the optimized percentage to convert gives the highest Net After-Tax Assets for the target year of the analysis. The Roth IRA Conversion Optimizer works best when calculating income tax from adjusted growth incomes instead of calculating income tax using entered rates.

Access the Roth IRA Conversion Optimizer

On the **Quick Calcs** menu, click **Roth IRA Conversion Optimizer**. The Select Alternative dialog box appears.

Click the Alternative for which you want to find the best percentage to convert. The Roth IRA Conversion Optimizer appears.

Roth IRA Conversion Optimizer Tab: Table of Inputs

Input	Description
Assumptions	Based upon the Birth Dates that you enter in the Main Inputs, the program calculates the assumed years of death for the owner and the beneficiary.
Conversion Year	Enter the year that the conversion will occur.
Year for Maximum Net After-Tax Assets	The amount to convert is based on the year in which the owner wants to have the maximum Net After-Tax Assets. Enter the year.
Optimization Precision	The program converts the fund in 1, 2, 5, or 10 percent increments until it finds the optimum percent to convert.

Chapter 11

Modeling Adjustments to Other Assets

Other Assets Section

The Other Assets fund represents all assets that are not part of the Pension Fund or Roth IRA. In many cases, an Other Assets fund contains a liquid and a non-liquid balance. The program allows you to separately enter these balances, their growth rates, and the tax rates on the growth. The liquid balance of the Other Assets fund grows at the rate you specify in the Main Inputs section, and the growth is taxed at the rate you specify in the Taxes section. The non-liquid balance grows at the rate that you specify in the Other Assets section. The program does not tax the growth of the non-liquid balance. By default, the program reinvests minimum distributions in the Other Assets fund. You can choose to consume, or spend, the minimum distribution by using the Input Assumptions window. You can also enter positive or negative adjustments that reflect any additional contributions to or withdrawals from the Other Assets fund. Money withdrawn from the Other Assets is considered “consumed”—it leaves the analysis completely.

Other Assets Section: Table of Inputs

Input	Description
Description (top)	In this box, enter a short description of the Pension Fund. The description is optional.
Total 12/31/(previous year) Balance	Enter the total balance of the Other Assets fund. This includes the non-liquid portion. If you’ve entered
Non-Liquid Portion Balance	Enter the non-liquid portion of the Other Assets balance in this box. The program does not tax the Non-Liquid portion. You can also enter a growth rate for the Non-Liquid portion.
Growth	Enter the annual percent increase of the Non-Liquid Portion of the Other Assets Balance.
Description	Enter a short description for each distribution. The description is optional.
Adjustment	Enter the amount of each Adjustment in this box.
Growth Rate	Enter the annual percent increase of the Adjustment.
From/To Boxes	Use these boxes to enter the span of years for which the distribution is needed.
Apply to Alternative	These numbers represent the Alternatives. Selected check boxes indicate which Alternatives will include the distribution.

Apply Growth from (first year of analysis)(instead of "From" Year)

In general, you'll be planning future adjustments, so you'll probably want to adjust for inflation. By default the program applies the growth rate on the adjustment from the first year of analysis instead of from the first year that the plan owner needs the adjustment. This ensures that when the adjustment occurs, the program has adjusted it for inflation.

Custom Adjustments

Click this button to enter adjustments on a year-by-year basis instead of over a span of years. The program adds these adjustments to any adjustments that you enter in the Other Assets section. For more information on Custom Data Entry, see Chapter 15, *Custom Data Entry*.

% of Growth to Realize

You can model your cases to display the effect of unrealized capital gains. For example, if you want to model a case with gains realized only every five years, enter 0% for four years followed by 100% in the fifth year. This applies the Other Assets income tax growth rate to the realized growth balance in the fifth year. When the Percent of Other Assets Growth Realized value is other than 100%, the Other Assets report is changed to show the Realized and Unrealized Growth balances.

Chapter 12

Modeling Contributions

Contributions Section

Use the Contributions section to add contributions to a Pension Fund, Roth IRA, or Other Assets. Contributing to a deductible IRA causes tax savings. In order to compare the traditional and Roth IRAs, the program can add this tax savings to the plan owner's Other Assets. The program will calculate the tax savings of each contribution by multiplying the contribution amount by the income tax rate and adding that amount to the Pension Fund.

Plan owners filing single whose AGIs are under \$95,000 and joint filers whose AGIs are under \$150,000 can make nondeductible contributions of up to \$2000 annually to Roth IRAs. This includes plan owners who've attained age 70½. Contributions to Roth IRAs won't be available to higher-income taxpayers, however.

Contributions Section: Table of Inputs

Input	Description
Contributions Options	Click each Alternative for which tax savings will be added to the Other Assets fund (due to Pension Fund contributions).
Target Fund	Click in this box and select the fund that will receive the contribution.
Annual Contribution	Enter the annual amount of each contribution.
Growth Rate	Enter the annual percent increase of the contribution.
From Year/To Year	Use these boxes to enter the span of years for which the contribution is needed.
Apply to Alternative	These numbers represent the Alternatives. Selected check boxes indicate which Alternatives will include the contribution.
Apply Growth from (first year of analysis)(instead of "From" Year)	In general, you'll be planning future contributions, so you'll probably want to adjust for inflation. By default the program applies the growth rate on the contribution from the first year of analysis instead of from the first year that the plan owner needs the contribution. This ensures that when the contribution occurs, the program has adjusted it for inflation.

Custom Adjustments

Click to Other Assets, to Roth IRA, or to Pension Fund to enter contributions on a year-by-year basis instead of over a span of years. The program adds these contributions to the contributions that you enter in the Contributions section.

Chapter 13

Modeling Insurance

Insurance Section

Use the Insurance section to enter Life Insurance Premiums and 2nd-to-Die Life Insurance Proceeds. You can enter premiums and proceeds over a number of years or for specific years. The program ignores any proceeds or premiums that occur after the year in which second-to-die becomes deceased.

Insurance Outside Estate?

This question appears at the top of the insurance section. For each alternative you select if the insurance is part of the estate.

Premiums

If a dollar amount is entered for the desired distribution, the program increases the distribution enough to pay the Insurance Premium without decreasing the after-tax amount of money received from the entered distribution. In all other cases, the program will distribute the greater of the desired distribution and the amount necessary to pay for the Insurance Premium. Life insurance premiums are paid first out of income.

Premiums Tab: Table of Inputs

Input	Description
Pay Premiums From	Select a fund as the primary source for paying the premiums. If there is not enough money in the fund you select, the program takes the payments first from the Other Assets fund, then from the Pension Fund, and finally from Roth IRA. Money used for premiums is considered “consumed;” it is not transferred to Other Assets. It is completely taken out of the analysis.
Description	Enter a short description for each premium. The description is optional.
Premiums	Enter the amount of each Premium in this box.
Growth Rate	Enter the annual percent increase of the Premium.
From/To Boxes	Use these boxes to enter the span of years for which the Premium is needed.
Apply to Alternative	These numbers represent the Alternatives. Selected check boxes indicate which Alternatives will include the Premium.

Apply Growth from (first year of analysis)(instead of "From" Year)

In general, you'll be planning future Premiums, so you'll probably want to adjust for inflation. By default the program applies the growth rate on the Premium from the first year of analysis instead of from the first year that the plan owner needs the Premium. This ensures that when the Premium occurs, the program has adjusted it for inflation.

Custom Insurance Premiums

Click this button to enter Premiums on a year-by-year basis instead of over a span of years. For more information on Custom Data Entry, see Chapter 15, *Custom Data Entry*.

Proceeds

For each Alternative, you can choose to include Insurance Proceeds in the taxable estate or keep them outside of the estate. In either case, the program adds the Proceeds to the Other Assets using the following model:

If proceeds are outside of the estate, the program adds them to the Other Assets on 12/31 in the year of second-to-die. If the proceeds are inside of the estate, the program adds them to the Other Assets on 1/1 of the year after the second-to-die. In both cases, the program pays the estate taxes from the Other Assets on 1/2 of the year after the second-to-die.

Proceeds Tab: Table of Inputs

Input	Description
Primary Source for Life Insurance Premiums	Select a fund as the primary source for paying the premiums. If there is not enough money in the fund you select, the program takes the payments first from the Other Assets fund, then from the Pension Fund, and finally from Roth IRA. Money used for premiums is considered "consumed;" it is not transferred to Other Assets. It is completely taken out of the analysis.
Description	Enter a short description for each Proceed. The description is optional.
Proceed	Enter the amount of each Proceed in this box. The program adds insurance Proceeds to the Net After-Tax Assets every year up to and including the year of the second-to-die in an owner/spouse case.
Growth Rate	Enter the annual percent increase of the Proceed.
From/To Boxes	Use these boxes to enter the span of years for which the Proceed is needed.
Apply to Alternative	These numbers represent the Alternatives. Selected check boxes indicate which Alternatives will include the Proceed.

Apply Growth from (first year of analysis)(instead of "From" Year)

In general, you'll be planning future Proceed, so you'll probably want to adjust for inflation. By default the program applies the growth rate on the Proceed from the first year of analysis instead of from the first year that the plan owner needs the Proceed. This ensures that when the Proceed occurs, the program has adjusted it for inflation.

Custom Insurance Premiums

Click this button to enter Proceeds on a year-by-year basis instead of over a span of years. For more information on Custom Data Entry, see Chapter 15, *Custom Data Entry*.

Chapter 14

Modeling Donee Exclusion Gifting

Gift Fund Section

Gift Fund Section: Table of Inputs

Input	Description
Gift Fund Options	Enter a separate Growth Rate for the Gift Fund. Each Alternative can have a different Growth Rate. Click a box and select the fund from which contributions will be made.
Description	Enter a short description for each Contribution. The description is optional.
Contribution	Enter the amount of each Contribution in this box.
Growth Rate	Enter the annual percent increase of the Contribution.
From/To Boxes	Use these boxes to enter the span of years for which the Contribution is needed.
Apply to Alternative	These numbers represent the Alternatives. Selected check boxes indicate which Alternatives will include the Contribution.

Money that plan owners contribute to the Gift Fund is only taxed if it is coming from the Pension Fund. The Gift Fund grows at the rate you specify, and it is not subject to estate taxes upon the owner's death. When the plan owner dies, the program adds the value of the Gift Fund to the Net After-Tax Assets.

Apply Growth from (first year of analysis)(instead of "From" Year)

In general, you'll be planning future Contributions, so you'll probably want to adjust for inflation. By default the program applies the growth rate on the Contribution from the first year of analysis instead of from the first year that the plan owner needs the Contribution. This ensures that when the Contribution occurs, the program has adjusted it for inflation.

Custom Insurance Premiums

Click this button to enter Contribution on a year-by-year basis instead of over a span of years. For more information on Custom Data Entry, see Chapter 15, *Custom Data Entry*.

Chapter 15

Custom Data Entry

Custom Data Entry Window

Use the Custom Data Entry window to make additional data entries to various input sections of the program. Using the Custom Data Entry window, you can enter values for specific years instead of over a span of years. Also, you can quickly copy or clear columns of data from one Alternative to others by using the Fill button, the Copy Col. button, and the Clear button.

Enter Data in the Custom Data Entry Window

Click  wherever you see it in the program. A Custom Data Entry Window appears.

For each Alternative, enter an amount or percentage (depending on your purpose) for each year. For appropriate sections, values under 100 will be entered as percents

Clear Button

Use the Clear button to delete data from Alternatives.

While in the Custom Data Entry window, click the **Clear** button or press **F7**. The Clear Inputs window appears.

Click the **Alternatives** from which you want to delete data.

Click the **Clear Inputs** button.

Note

*Clicking the **Clear** button in the Custom Data Entry Window does not have the same effect as clicking the **Clear Inputs** command on the Edit menu. Clicking the **Clear** button in the Custom Data Entry window only affects data in the Custom Data Entry window.*

Copy Col. Button

Use the Copy Col. button to transfer data from one Alternative to another within the Custom Data Entry window.

Click the **Copy Col.** button or press **F4**. The Copy Inputs window appears.

In the **Copy From** box, click the Alternative you want to copy.

In the **Copy To** box, click the Alternative(s) you want to copy data to.

Click the **Copy Inputs** button.

Fill Button

You can use the Fill button to Replace, Add, or Subtract data from one Alternative or all of the Alternatives within the Custom Data Entry window.

Click the **Fill** button.

In the **Annual Amount** box, enter the amount that you want to enter into the entire column.

In the **Annual Increase in Amount** box, enter the rate at which the **Annual Amount** will increase each year.

Enter the span of years that the **Annual Amount** includes.

In the **Select the Alternatives to Change** group box, click the **Alternatives** that the **Annual Amount** will affect. Skip this step if you are working with Living Expenses.

Click one of the following items:

Replace—The program overwrites the existing values with the **Annual Amount**.

Add—The program combines the data in the Fill window with the existing values.

Subtract—The program decreases the existing values by the **Annual Amount**.

Chapter 16

Viewing Results

Current Report

The Current Report appears at the bottom of the window. It shows a brief view of the results for the Current Report and Alternative. Above the Current Report, you can see the title of the report and the Alternative for which the results are shown. For example, when you open the program, the Summary Report for Alternative 1 appears. You can display different reports and Alternatives in the Current Report.

The Current Report title displays the report name and the Alternative for which the results apply. When you open the program, the Summary Report displays the results for Alternative 1.



<u>Year</u>	<u>Pension Fund Begin Value</u>	<u>Annual Distributions</u>	<u>Other Assets Ending Value</u>	<u>Net After-Tax Assets</u>
2000	\$1,500,000	\$68,182	\$1,124,182	\$4,795,877
2001	\$1,575,000	\$75,000	\$1,262,716	\$4,839,936
2002	\$1,650,000	\$82,500	\$1,417,194	\$4,908,414

Right-click for a menu of report viewing options

Display a Different Alternative in the Current Report

Right-click in the **Current Report**. A short-cut menu appears.

Click the Alternative for which to display results. The Current Report title displays the selected Alternative number.

-Or-

- Click ← to move through the Alternatives in a descending order.
- Click → to move through the Alternatives in an ascending order.

Expanded Report

The expanded report appears in a new full-sized window. The title of the report and the Alternative for which the results are displayed appear below the Menu bar. If you have included more than one Alternative, tabs for each Alternative appear at the bottom of the window. Click each tab to view expanded reports for each Alternative.

Expand Current Report

A report always appears at the bottom of the window. You can expand this report to fit your entire screen.

Right-click in the **Current Report**. A short-cut menu appears.

Click **Expand to Full Screen**. The Pension & Roth IRA Analyzer Reports window appears.

-Or-

- On the Reports menu, click Expand Current Report.

-Or-

- Click the **Expand Report** button in the Reports section.

Select a Report in Expanded View

While in Expanded View, click the **Reports** menu or **Graphs** menu. A submenu appears.

Point to **Analysis** to see list of analysis reports. Point to **Comparisons** to see a list of comparison reports.

Click the report or graph to view.

Options Menu in Expanded View

The expanded report window has its own Options menu that allows you the following:

- To view the results in Actual or Inflation Adjusted Dollars.
- To view the graphs in three dimensions.
- To print graphs and reports from expanded view.
- To exit the expanded view.

Reports Section

Use the Reports section to select the reports that you want to view. The Reports section uses tabs to list the Recommended, Analysis, Comparison, and Custom reports. When selected, tabs are highlighted in yellow. Selecting a report in the Reports section displays a brief description of the Report at the bottom of the window. Double click the report to expand it.

Selecting a Report

When you're finished entering your data, click the Reports button on the left side of the screen. The Reports section appears. The Reports section contains a number of Recommended, Analysis, Comparison, and Custom reports. Next, ask yourself what

exactly it is that you want to see. For example, you may want to see the effects of a distribution from the Pension Fund to the Other Assets. With that in mind, click the Analysis tab in the Reports section. Scroll through the list until you find a report that you think might answer your question. Possibly, the Pension Fund Analysis or the Other Assets Growth Analysis can answer your question.

Analysis Reports

If an entire column displays all zeroes in an Analysis report, then the column and its header do not appear in the report. A description of the selected report appears below the box. For details of each report, see Chapter 22, *Report Listing*.

- Distributions Breakdown Report
- Donee Exclusion Gifting Analysis Report
- Estate Analysis Report
- Insurance Analysis Report
- Life Expectancies Analysis Report
- Minimum Distributions Life Expectancy Analysis Report
- Minimum Distributions Report
- Other Assets Analysis Report
- Other Assets Growth Analysis Report
- Pension Fund Analysis Report
- Pre-59½ Distributions Analysis Report
- Roth IRA Analysis Report
- Roth IRA Distributions Report
- Roth IRA Taxes and Penalties
- Summary Report
- Taxable Amount of Pension Fund Report
- Taxable Estate Analysis Report
- Total Funds Ending Value Report
- Total Pension & IRA Distributions Report

Comparison Reports

The Comparison reports and graphs compare values for the Alternatives and show the percentage difference between them. If an entire column displays all zeroes, then the column and its header do not appear in the report. For a printed list of the report values and their descriptions, see the User Manual.

- Cumulative After-Tax Distributions
- Cumulative Net Proceeds
- Net After-Tax Assets
- Other Assets Ending Value
- Pension Fund Ending Value
- Roth IRA Distributions
- Roth IRA Ending Value
- Total Funds Ending Value

- Pension Fund Distributions
- Yearly After-Tax Distributions

Chapter 17

Designing a Report

Report Designer

You may find that our pre-designed reports just don't provide you with the results that you need. The Report Designer allows you to create your own reports using all of the program's calculated results.

Report Designer: Window Description

Object/Input	Description
Analysis Report Title	Type the name of the report that you are constructing. If you are modifying a report, the report's name appears here.
Select Report Button	Click Select Report to modify an existing report.
Available Values	The Report Designer lists all of the program's results in the Available Values box. When an Available Value is highlighted, a description of the value appears below the box. Use the Available Values to create your own report by clicking each value and dragging it into the Constructed Report box. Click Save Report, Save Graph, or Save Comparison to save your Constructed Report. Note <i>The program can only compare one value at a time. To create a Comparison Report, you can only have one value in the Constructed Report box</i>
Constructed Report	The Constructed Report box lists all of the Available Values that you select. Click Save Report, Save Graph, or Save Comparison the list as a report. Click Clear to clear the Constructed Report box.
Clear Button	This button clears the Constructed Report box. Clicking Clear does not delete the report. To delete a report, click Erase Report.
Save Graph Button	Click this button to save the Constructed Report as a graph.
Save Report Button	Click this button to save the Constructed Report.

Create Comparison Button	Click this button to create a Comparison Report. You can only create a comparison of one Available Value. If you have multiple values in the Constructed Report box, you cannot create a comparison.
Erase Report Button	Click this button to erase the selected report.

Construct a Report

1. On the **Reports** menu, click **Report Designer**. The Report Designer window opens.
2. In the **Analysis Report Title** box, type a name for the new report or graph.
3. In the **Available Values** list box, click the results to include in the report or graph. You can only click one result at a time. A description of each value appears at the bottom of the window.
4. Click the arrow pointing right. The values you clicked appear in the **Constructed Report** list box.
5. Click the Save Report, Save Graph, or Create Comparison (Report) button. A prompt appears.

Modify an Existing Report

1. In the Report section, click the **Customize** button. Or on the **Reports** menu, click **Report Designer**.
2. In the Report Designer window, click the **Select Report** button. The Analysis Report Selection window appears.
3. Click the report or graph to modify.
4. Click the **Select Report** button. The results of this report or graph appear in the **Constructed Report** list box in the Report Designer window.
5. In the **Analysis Report Title** box, enter a name for the new report or graph.
6. Add or clear results from the report or graph.
7. Click the **Save Graph** or **Save Report** button. A prompt appears.
8. Click **OK**.

Clear the Constructed Reports Box

In the **Constructed Report** box, click the results that you do not want in the report or graph. You can only click one at a time.

Click the arrow pointing left. The values no longer appear in the **Constructed Report** box.

Note

To clear all results from the **Constructed Reports** box, click the **Clear** button below the box. When clearing results from the **Constructed Reports** box, the results are not deleted. They are transferred back to the **Available Values**.

Delete a Report

1. In the Report Designer window, click the **Select Report** button. The Analysis Report Selection window appears.
2. From the list, click the report or graph you want to delete. You cannot delete the program's default reports and graphs.
3. Click the **Select Report** button. The results of the selected report appear in the **Constructed Reports** list box in the Report Designer window.
4. Click the **Erase Report** button. A prompt appears.
5. Click **Yes**.

Note

You cannot delete the program's default reports and graphs.

Chapter 18

Applying Report Options

Report Options Window

The Report Options window allows you to format your reports for printing. You can access the Report Options window via the Reports menu or from within the Print window.

Print the Date and Time

- Under the **Printing Options** heading in the Report Options window, click the **Print Date Prepared** and the **Print Time** check boxes. To print the date prepared, you must enter the date in the **Client Info** section.

Print in Black and White

- Under the **Printing Options** heading in the Report Options window, click the **Print in Black and White** check box.

Print for Windows NT

- Under the **Printing Options** heading in the Report Options window, click the **Windows NT Printing** check box.

Number Pages

- Under the **Printing Options** heading in the Report Options window, click the **Number Pages** check box.

Format the Text of a Report

Under the **Fonts** heading in the Report Options window, click the text you want to format.

The **Font** dialog box appears.

Click the **Font**, **Style**, **Size**, and **Effects** to apply to the text and click **OK**.

Notice the description of the text in the Report Options window has changed.

Format Page Margins

- Under the **Page Margins** heading in the Report Options window, enter the **Top**, **Left**, **Bottom**, and **Right** margin settings (in inches).

Create a Heading for a Report

In the Report Options window, click the **Heading** box.

Type the text that you want to display at the top of your printed report.

Include the Heading on a Printed Report

- Under the **Printing Options** heading in the Report Options window, click the **Print Heading** check box.

Limit the Number of Years to Include in a Report

- Under the **Printing Options** heading in the Report Options window, enter the number of years that you want to include in your reports in the **Years to Include in Report** box. By default, the program includes 60 years of results.

Chapter 19

Printing Reports and Graphs

Print Window

Use the Print window to select the reports and graphs you want to print. You can print the program's default Report Groups or its individual Analysis and Comparison reports. You can create and print your own Report Groups or a combination of your Report Groups and the program's.

Object/Input	Description
Available Reports	This section contains all of the reports that you can print, including your custom reports. The Available Reports box displays three tabs: Report Groups, Analyses, and Comparisons. Click these tabs to select the different types of reports. Click a report to select it. Then drag it into the Selected Reports box.
Report Groups Tab	A Report Group is any number of Selected Reports that has been combined or grouped. For example, the default Report Group, Analysis Graphs, contains the program's three analysis graphs. Selecting a Report Group saves you from scrolling through the Available Reports and selecting individual reports to print. By default, the program lists six Report Groups.
Analyses Tab	The Analyses tab lists all of the program's analysis reports and graphs.
Comparisons Tab	The Comparisons tab lists all of the program's comparison reports and graphs.
Selected Reports	The Selected Reports box displays all of the reports that you have selected to print. If you are including all four Alternatives in your analysis, four numbered check boxes representing the Alternatives will be selected when you open the Print window. You can read this as, " <i>The Inputs Report for Alternatives 1, 2, 3, and 4 are selected to print.</i> " To remove a report from the Selected Reports box, drag the report into the Available Reports box.
Clear Selected Button	Click this button to clear all Selected Reports.
Create Report Group Button	Click this button to create a group of reports that you frequently print.

Printing Options	This section allows you to include a number of Printing Options. Click the check boxes to include the options. You can include additional Printing Options in the Report Options window.
Print Report Button	Click this button to print all Selected Reports.
Print to File Button	The program allows you to save files as text or spreadsheet files, so you can edit your files in any word processor or spreadsheet program.
Printer Setup Button	Click this button to change printers or to setup another printer.
Report Options Button	Click this button to open the Report Options window in which you can format your reports.
Close Button	To exit the Print window after you print your reports, click Close.
Help Button	Click this button if you need help using the Print window.

Report Groups

A Report Group is any number of Selected Reports that has been combined or grouped in the Print window. For example, the default Report Group, Analysis Graphs, contains the program's three analysis graphs. Selecting a Report Group saves you from scrolling through the Available Reports and selecting individual reports to print. By default, the program lists six Report Groups. If you find that you often print the same group of reports, you can create your own report group.

Create a Report Group

In the same manner that you select reports to print, use the **Analyses** and **Comparisons** tabs in the Print window to add reports to the **Selected Reports** box.

Click the Create Report Group button.

In the **New Report Group** dialog box, enter a name for your Report Group and click **OK**. The name of your Report Group now appears on the **Report Groups** tab in the **Available Reports** box.

Delete a Report Group

On the **Report Groups** tab in the **Available Reports** box, click the Report Group you want to delete.

Press the **Delete** key on your keyboard. A warning appears.

To delete the Report Group, click **OK**.

Save a File as a Text or Spreadsheet File

1. On the **File** menu click **Print**. Or on the toolbar, click the **Print** graphic. The **Print Report** window opens.
2. Click the **Print to File** button. The Print to File window opens.
3. Select from one of four file types, which you can edit or send as e-mail attachments:
 - a. Text file: saves the file with a .txt extension, which can be opened in any word processor
 - b. Spreadsheet file: saves the file with a WK1 extension, which can be opened in Excel, Lotus, or Quattro Pro
 - c. HTML: saves the file with an .html extension, which is used most commonly on the Internet but can be read by most word processors
 - d. DOC: if you have Microsoft Word 97 or later, saves the file with a .doc extension, which can be opened in Word
4. Click the **Create File** button. The Save As window opens. Enter a file name and specify a directory to which the file should be saved.

Chapter 20

Frequently Asked Questions

We've been taking notes from our tech support calls, and we've developed a list of frequently asked questions. Here they are:

- How do the New Rules for minimum distributions work?
- How do I create an analysis?
- How do I model a spousal rollover?
- Can I choose any method of calculating life expectancies?
- How does the program handle the MDIB requirements?
- Why are the Net After-Tax Assets larger than the Total Funds Ending Value?
- Why are the Unpaid Roth IRA Taxes so high?
- Why did the Other Assets balance appear/change?
- What are the best reports to show my clients?

How do the New Rules for Minimum Distributions Work?

Required Minimum Distributions: Calculations under the Final Regulations

After more than a decade of proposed regulations, final minimum distribution regulations were published on April 17, 2002. These new rules are based primarily on the proposed regulations of 2001, but they do add some new calculation wrinkles to consider.

As with the 2001 proposed regulations, the final regulations keep the basic calculation intact. Each year, the distribution is calculated by dividing the previous year's ending balance by a life expectancy number. The calculation complexity lies in determining the life expectancy number.

Here's how the new rules work:

Situation I: Owner still alive

If the owner is still alive, the life expectancy is taken straight from the Uniform Lifetime Table. Simply find the owner's age on the table (it covers ages 70 through 115), and use the life expectancy listed. For this situation, the only change caused by the 2002 final regulations was to update the numbers in the Uniform Lifetime Table.

Prior to 2001, the Uniform Lifetime Table was known as the MDIB table, and was used only for nonspousal beneficiaries. Now, it is used whenever the owner is alive, making the distribution calculation very straightforward. There is only one exception to this rule: cases involving spousal beneficiaries who are more than ten years younger than the owner. In that case, the joint life expectancy of the owner and spouse is used. Once the owner dies, this exception no longer applies, and Situation 4 (see below) applies.

Situation 2: Owner dies with no beneficiary

In the year of death, the minimum distribution is still calculated according to Situation 1 (above). It's only in the years after the owner's death that this situation applies.

If the owner dies before the required beginning date, and there is no beneficiary alive as of the owner's death, the five year rule applies—all the money has to be distributed within five years of the year the owner died.

If the owner dies on or after the required beginning date, and there is no beneficiary alive as of the date of death, distributions after the owner's death are taken over a term based on the owner's life expectancy in the year of death. This calculation is easier than it sounds. For the year after death, subtract one from the owner's single life expectancy in the year of death. As each year passes, reduce the life expectancy by one. For example, if the owner died in 2003, the distribution in 2004 would be based on the owner's 2003 life expectancy minus one.

The new life expectancy tables used by the 2002 final regulations add some complexity to cases when the owner has already died. If distributions are being taken under this scenario, the length of the term has to be recalculated using the 2002 single life expectancy table. For example, if a plan owner died in 1995, the 2003 distribution would be based on the owner's life expectancy (using the new table) in 1995 reduced by 8. Under the 2001 proposed regulations, the beneficiary had to be alive as of 12/31 of the year following the owner's death to be considered valid. Under the 2002 regulations, the beneficiary only has to be alive when the owner dies to be considered.

Situation 3: Owner dies with nonspousal beneficiary

In the year of death, the minimum distribution is still calculated according to Situation 1 (above). It's only in the years after the owner's death that this situation applies.

When the owner dies with a nonspousal beneficiary, a term certain distribution period is established based on the designated beneficiary's single life expectancy in the year after the owner's death. Unlike Situation 2, in this case the term is based on a life expectancy calculated in the year after the owner's death, rather than the year of death. For example, if the owner died in 2003, the life expectancy used as the divisor in 2004 would be the beneficiary's single life expectancy in 2004. In 2005, the divisor used would be 2004's number minus 1. The life expectancy in the year after death is, of course, calculated using the new single life expectancy table, and, as with Situation 2, an existing term certain would have to be recalculated using the new table.

The 2002 final regulations add another wrinkle to those situations when the owner died on or after the required beginning date. In these situations, the life expectancy used is the

greater of the one calculated using the “no beneficiary” case (situation 2), and the one resulting from the calculation described in the previous paragraph. This can get a little confusing, because the “no beneficiary” case starts with a term calculated in the year of death, while the nonspousal beneficiary’s term certain starts the year after the owner’s death.

Situation 4: Owner dies with spousal beneficiary

In the year of death, the minimum distribution is still calculated according to Situation 1 (above). It’s only in the years after the owner’s death that this situation applies.

When the owner dies with a spousal beneficiary, the spouse gets special treatment. In this case, the distributions are based on the spouse’s single life expectancy recalculated each year after the owner’s death. If the owner dies prior to the calendar year in which he would have reached age 70½, the spouse does not have to start taking distributions until that year. Upon the spouse’s death, the distributions become term certain, with the term set to the spouse’s life expectancy in the year of death. This works the same as the old term certain method, with the life expectancy being reduced by one for each year that passes after the spouse’s death.

As with situation 3, the 2002 final regulations add more complexity. For cases where the client dies on or after the required beginning date, the life expectancy used is the greater of the one calculated using the “no beneficiary” case (situation 2), and the one resulting from the calculation described in the previous paragraph.

When do these apply?

In 2002, there is the option of using either the pre-2001 proposed regulations (with all their calculation and recalculation options), the 2001 proposed regulations, and the 2002 final regulations. After 2002, only the 2002 final regulations may be used.

The 2002 final regulations added more than just a new mortality table to these calculations. They also added complexity. When all the different situations listed above are taken together, they represent a fairly complicated set of calculations that have to be correctly performed to make sure you calculate the correct distribution for your clients.

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Calculating Required Minimum Distributions using the 2001 Proposed Regulations:

The regulations released on 1/11/2001 radically changed the way minimum distributions have to be calculated. They eliminated a lot of complexity reduced the number of decisions made by a plan owner. These regulations eliminated the old recalculation options. There is no "hybrid method" or "joint term certain method." However, the new methodology does still have some similarities to the old. For example, the distribution is still calculated by dividing the previous year's balance by a life expectancy number.

Here’s how it works:

Situation 1: Owner still alive

If the owner is still alive, the distributions are based on the divisor found in the MDIB table for owner's age. The MDIB table is a published table of joint life expectancies for an owner and a beneficiary who is ten years younger than the owner. It simplifies the calculation to only using the owner's age. No beneficiary information is needed, and no recalculation options are available. There is only one exception to this rule – for cases involving spousal beneficiaries that are more than ten years younger than the owner.

Situation 2: Owner dies with nonspousal beneficiary

When the owner dies with a nonspousal beneficiary, a term certain distribution period is established, based on the designated beneficiary's single life expectancy in the year after the owner's death. As with the old term certain method, this life expectancy is simply reduced by one for each year after it is calculated.

Situation 3: Owner dies with no beneficiary

This is the only situation where the owner's required beginning date is relevant. If the owner dies before the required beginning date, and there is no beneficiary alive as of 12/31 of the year following the owner's death, the five year rule applies – all the money has to be distributed within the next five years.

If the owner dies after the required beginning date, and there is no beneficiary alive as of 12/31 of the year following the owner's death, the distributions are taken out over a term based on the owner's life expectancy in the year of death. Once again, this works the same as the old term certain method, with the life expectancy being reduced by one for each year that passes after the owner's death.

Situation 4: Owner dies with spousal beneficiary

When the owner dies with a spousal beneficiary, the spouse gets special treatment. In this case, required distributions are generally based on the spouse's single life expectancy in each year after the owner's death.

If the owner dies prior to the calendar year in which he would have reached age 70½, the spouse does not have to start taking distributions until that year. However, if the owner dies before 12/31 of the calendar year in which he would have reached age 70½ and the spouse also dies before 12/31 of the calendar year in which the original owner would have reached age 70½, then the second-to-die spouse is treated as the new owner with the rules of Situation 2 being applied if the second-to-die spouse has a designated beneficiary or Situation 3 if there is no designated beneficiary.

If the spouse dies after the year in which the original owner would have turned 70½, the distributions become term certain, with the term set to the spouse's life expectancy in the year of death. Again, this works the same as the old term certain method, with the life expectancy being reduced by one for each year that passes after the spouse's death.

Situation 5: Owner dies and a spousal rollover

When the owner dies with a spousal beneficiary, the spouse has the option of doing a spousal rollover with the spouse becoming the new owner. In such a case, the rules of Situation 1 apply after the spouse becomes the new owner.

Situation 6: The Exception to Situation 1

The exception to situation 1 is when there is a spousal beneficiary who is more than 10 years younger than the owner. In this case, the life expectancy used while the owner is alive is the joint life expectancy of the owner and spouse, recalculated in each year. Once the owner dies, the exception no longer applies, and the distribution is handled according to the situations described above.

1987 Proposed Regulations (Pre-2001 Rules)

If the plan owner has not named a beneficiary

If the plan owner has not named a beneficiary, then there are two methods for determining the plan owner's life expectancy each year: Term Certain method or Recalculation method. Use the Recalculate Owner's Life Exp. check box to determine the method:

- Term Certain method—Clear the Recalculate Owner's Life Exp. check box. The program uses Table V to determine the owner's life expectancy in for the Required Beginning Date (first year that distributions are required). Thereafter, the program subtracts one from the life expectancy each year.
- Recalculation method—Click the Recalculate Owner's Life Exp. check box. The program uses Table V to determine the life expectancy each year.
-
- If the plan owner has named a beneficiary
- Plan owners and beneficiaries have the ability to recalculate their life expectancies annually (see Note). If the plan owner has named a beneficiary, then there are actually four methods of recalculating life expectancies each year. Use the Recalculate Owner's Life Exp. and the Recalculate Beneficiary's Life Exp. check boxes to determine the method:
 - **Joint Recalculation method**—Click both check boxes. Both life expectancies are recalculated. The program uses Table VI to determine the minimum distribution from the life expectancies.
 - **Joint Term Certain method**—Clear both check boxes. Neither life expectancy is recalculated. Both the owner and the beneficiary use the term certain method. Both life expectancies decrease by 1 annually.

- **Hybrid method**—Only click Recalculate Owner’s Life Exp. The owner's life expectancy is recalculated and the beneficiary uses the term certain method. Using the beneficiary's deemed age ((determined using single life Table V) and the owner's actual age, the program uses joint life Table VI to determine the minimum distribution. Many planners recommend this method when the plan owner is older than the beneficiary.
- **Hybrid method**—Only click Recalculate Beneficiary’s Life Exp. The beneficiary's life expectancy is recalculated, and the owner uses the term certain method. Using the owner's deemed age (determined using single life Table V) and the beneficiary's actual age, the program uses joint life Table VI to determine the minimum distribution. Planners recommend this variant when the beneficiary is older than the plan owner.

How Do I Create an Analysis?

The answer to this question depends on what type of analysis you want to create. Generally, you want to enter data in the Main Inputs section and create your Alternatives first. The program contains a number of other sections that allow you to enter personal names of your clients and titles for each Alternative, taxes, living expenses, pension fund distributions, Roth IRA conversions and distributions, adjustments to the Other Assets fund, contributions, insurance premiums and proceeds, donee exclusion gifting, and more.

We’ve received calls concerning a few common types of analyses. We’ve listed these in Chapter 24, *Sample Cases*.

Can I Choose any Method of Calculating Life Expectancies?

The answer to this question is yes. For a description of how the program calculates life expectancies, see Minimum Distributions Options.

Why is the Net After-Tax Assets Larger than the Total Funds Ending Value?

The Net After-Tax Assets value is larger than the Total Funds Ending Value only when you have selected Estate Analysis: Max Deferral in the Main Inputs section. When you select Estate Analysis: Max. Deferral, the program includes the Present Value of Future After-Tax Distributions in the Net After-Tax Assets.

When calculating the Net After-Tax Assets, the program assumes that both the owner and the spousal beneficiary (if there is one) have died by the end of each year. In most cases, the surviving heir does not have to withdraw the entire balance from the Pension Fund or Roth IRA at the time of death. Instead, he or she can let the money grow tax-free or tax-deferred and withdraw the money according to minimum distribution rules. Often, this

growth is over a long period of time because it is based on the heir's term certain life expectancy.

When you select Estate Analysis: Max. Deferral in the Main Inputs section, the program includes the value of the deferred growth in the Net After-Tax Assets value. Look at the P.V. of Future After-Tax Distributions column in the Estate Analysis report. This column lists the present value of all future distributions that will be withdrawn from the Pension Fund and/or the Roth IRA. Each of these distributions is net of income tax and present valued back to the date of death using the Inflation Rate that you entered in the Main Inputs section. In turn, the program calculates the Net After-Tax Assets using the following formula:

$$\begin{aligned} \text{Net After-Tax Assets} &= \text{P.V. of Future After-Tax Distributions} \\ &+ \text{Distributions to Other Assets} \\ &- \text{Federal Estate Tax} \\ &- \text{State Death Tax} \end{aligned}$$

If you have not clicked Estate Analysis: Max. Deferral in the Main Inputs section, the report will not include a P.V. of Future After-Tax Distributions column. In such a case, the heir withdraws the entire balance of the plan after the death of both the plan owner and the beneficiary.

Why are the Unpaid Roth IRA Taxes so High?

The Unpaid Roth IRA Taxes column lists all the income taxes that the Roth IRA generates in the event that the owner and spousal beneficiary die by the end of each year. The values in the column consist of any income tax on the Roth IRA Conversion that has not been paid. Since the program assumes that death occurs at the end of the year, the Unpaid Roth IRA Taxes value does not include that year's conversion tax because it has already been paid.

If you click Estate Analysis: Max. Deferral in the Main Inputs section, the program assumes that the heir will withdraw the balance of the plan over his or her term certain life expectancy after the death of the owner and spouse (if there is one). If both the owner and the spouse die within five years of a conversion, this any withdrawal may cause income tax. The program includes this income tax in the Unpaid Roth IRA Taxes column.

Why did the Other Assets Balance Appear/Change?

By default, the program reinvests minimum distributions in the Other Assets fund. If you want to model a case in which minimum distributions are spent, see Input Assumptions. Also, you may have instructed the program to pay Roth IRA conversion taxes from the Other Assets. If the Other Assets fund did not have enough money to pay the taxes, the program created a balance large enough to do so.

What are the Best Reports to Show My Clients?

We've been asked this question so many times that we've included what we call our Recommended Reports:

- Summary Report
- Minimum Distributions Report
- Estate Analysis Report
- Comparison of Cumulative Net Proceeds Report
- Comparison of Net After-Tax Assets Report

How Do I Include Additional Streams of Income?

The Pension & Roth IRA Analyzer allows you to include taxable income, such as an AGI or social security benefits, to an analysis. If you want to include an AGI as income, you need to enter the AGI as a Taxable Annuity. However, if you're using an AGI method for calculating income taxes, you do not want to enter the AGI in two places.

What are the Lifetime Required Minimum Distributions Rules?

The Required minimum distributions rules generally apply when the owner of the plan reaches what is known as the age 70½ year. You reach 70½ on the date that is six months after your 70th birthday. If you reach age 70 in January through June, that same calendar year will be your age 70½-year. If you reach age 70 in July through December, your age 70½-year will be the year AFTER your 70th birthday. (Only the IRS could come up with rules like this!).

What is the Significance of the Age 70½ Year?

Generally (which means there are some exceptions), you must make a Required Minimum Distribution for the year in which you turn age 70½. The Required Minimum Distribution is the result of a simple calculation: you divide the IRA balance from December 31st of the preceding year by a Life Expectancy. This determined life expectancy is what makes the required minimum distributions rules so complex. The IRA distribution rules also depend on whether the owner of the traditional IRA has reached what is known as the Required Beginning Date. The Required Beginning Date is April 1st of the calendar year following the year in which the owner reaches age 70½. If the owner dies before the Required Beginning Date, the distribution rules are different than if he or she dies on or after the Required Beginning Date.

What is the Significance of the Required Beginning Date?

If the IRA owner dies on or after his Required Beginning Date, distributions from the traditional IRA will be determined by elections he did or did not make. Required minimum distributions will be locked-in and will only change due to certain other events (such as the death of the owner or beneficiary or a rollover by a surviving spouse). It is very important that one's distribution options be carefully considered before one reaches the Required Beginning Date. Many IRA owners will need to consult with a professional advisor in order to make the best choice. The Required Beginning Date locks-in one's distributions based on the beneficiary selections. Circumstances such as death may result in different beneficiaries later on, but the selections in effect on the Requirement Beginning Date will control the amount of those distributions.

Once you have reached the Age 70½ year, you must make a distribution each year (i.e., no later than the end of the year) based on the traditional IRA balance as of December 31st of the preceding year. The rule that allows you to distribute by April 1st of the following year is a one-time exception that only applies to the first year.

The best way to understand this rule is through an example. Let's assume that an IRA owner was born on February 15, 1928. He would be age 70 on 2/15/98. He would be age 70½ on 8/15/98. His age 70½-year is 1998. He must make a Required Minimum Distribution for 1998 by 4/1/99 based on the IRA balance as of 12/31/97. He must also make a Required Minimum Distribution for 1999 by 12/31/99 based on his IRA balance as of 12/31/98. In 2000, he must make a Required Minimum Distribution by 12/31/00 based on his IRA balance as of 12/31/99 and so on. In this example, the IRA owner has the option of making his 1998 Required Minimum Distribution by 4/1/99 instead of by 12/31/98. The disadvantage of making the 1998 distribution in 1999 is that he must also make a 1999 distribution by 12/31/99. So, if he delays the first Required Minimum Distribution until 1999, he will be making two Required minimum distributions in 1999 and possibly pushing himself into a higher tax bracket. In many cases, he would have been better off making the 1998 Required Minimum Distribution in 1998 and the 1999 Required Minimum Distribution in 1999. Remember, it is only the first Required Minimum Distribution that may be delayed until April 1st of the following year.

For non-spousal beneficiaries, distributions are subject to the MDIB requirements (see IRC Proposed Treas. Reg. Sec.1.401 (a)(9)-2). MDIB requires that no (non-spousal) distribution that occurs after the Required Beginning Date be less than the one calculated by dividing the Plan Balance by the factor from the MDIB Table divisor from IRC Proposed Treas. Reg. Sec.1.401 (a)(9)-2, Q-4. Effectively, this requirement is triggered when the non-spousal beneficiary is more than ten years younger than the plan owner is and will result in a joint life expectancy factor for a person who is ten years younger than the owner regardless of the actual age of the beneficiary. The MDIB limitation may be removed after the death of the owner if the plan owner previously made a written election to that effect before the Required Beginning Date. The program assumes that this election has been made. The program handles the MDIB calculation automatically, substituting the MDIB Table divisor for the Life Expectancy when appropriate.

Minimum distribution requirements may be changed by the death of the plan owner. In the case of non-spousal beneficiaries, this may be caused by the possible removal of

MDIB requirements. For spousal beneficiary cases, a switch to single life expectancy is sometimes possible after the death of the plan owner or spousal beneficiary. A surviving spousal beneficiary also has the option of electing to treat the plan as hers (or his) after the death of the plan owner. The program assumes a spousal rollover at the time of the client's death.

Minimum distributions for a Roth IRA do not start until after the death of the plan owner. They are based solely on the life expectancy of the beneficiary. For non-spousal beneficiaries, this life expectancy is calculated as of the year after death and reduced by one for each year after that.

How Do I Convert Existing Pre-59 ½ Distributions?

Revenue Ruling 2002-62 allows for a one-time switch to the Minimum Distributions method of calculating pre-59½ distributions. The software allows you to illustrate this switch. Enter the date the client started taking distributions as the **Starting Date** and the year of the switch as the **Distribution Year**. Select **Minimum Distributions** as the **Distribution Method**. The illustration will start in Distribution Year, illustrating the Minimum Distributions method from that year through the end of the calculations.

Chapter 21

Reference Material

To keep procedures short and free of lengthy discussions, this manual refers to the following material. The material is listed alphabetically.

Beneficiary

If you have entered names in the Client Info section, click the name of the beneficiary. If not, click Spouse, Child, or None.

If plan owners designate a beneficiary, the minimum distribution rules allow plan owners to withdraw retirement plan funds over the joint life expectancies of the plan owner and the beneficiary. When you include a beneficiary in your analyses, the program uses joint life expectancy factors based on the ages of the plan owner and beneficiary. Generally, the term beneficiary refers to an individual. If the beneficiary is the spouse of a Roth IRA owner, the annual election to recalculate the beneficiary's single life expectancy after the required beginning date is available.

For non-spousal beneficiaries, the life expectancy is calculated once, and it is reduced by one for each year after the required beginning date. Non-spousal beneficiaries have additional limitations placed on their calculated distributions:

- A non-spousal beneficiary is not permitted to recalculate his or her life expectancy in each year.
- For minimum distributions, nonspousal distribution calculations are subject to the MDIB requirements.

The program automatically handles both of these additional limitations for you. If there is more than one person named as the beneficiary (for example, children of the plan owner), the age of the beneficiary with the shortest life expectancy must be used to calculate the joint life expectancy.

If a charity or the plan owner's estate is named as the beneficiary, there is no "designated beneficiary," and funds must be withdrawn over the plan owner's life expectancy. A trust can also be named as the beneficiary. Generally in such cases, the life expectancy of the trust's beneficiary can be used to calculate the joint life expectancy.

Rev. Rul. 2002-62; 2002-42 IRB 1 (3 Oct 2002)

Part I

Section 72.--Annuities; Certain Proceeds of Endowment and Life Insurance Contracts
SECTION 1. PURPOSE AND BACKGROUND

.01 The purpose of this revenue ruling is to modify the provisions of Q&A-12 of Notice 89-25, 1989-1 C.B. 662, which provides guidance on what constitutes a series of substantially equal periodic payments within the meaning of § 72(t)(2)(A)(iv) of the Internal Revenue Code from an individual account under a qualified retirement plan. Section 72(t) provides for an additional income tax on early withdrawals from qualified retirement plans (as defined in § 4974(c)). Section 4974(c) provides, in part, that the term “qualified retirement plan” means (1) a plan described in § 401 (including a trust exempt from tax under § 501(a)), (2) an annuity plan described in § 403(a), (3) a tax-sheltered annuity arrangement described in § 403(b), (4) an individual retirement account described in § 408(a), or (5) an individual retirement annuity described in § 408(b).

.02 (a) Section 72(t)(1) provides that if an employee or IRA owner receives any amount from a qualified retirement plan before attaining age 59½, the employee’s or IRA owner’s income tax is increased by an amount equal to 10-percent of the amount that is includible in the gross income unless one of the exceptions in § 72(t)(2) applies.

(b) Section 72(t)(2)(A)(iv) provides, in part, that if distributions are part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the employee or the joint lives (or joint life expectancy) of the employee and beneficiary, the tax described in § 72(t)(1) will not be applicable. Pursuant to § 72(t)(5), in the case of distributions from an IRA, the IRA owner is substituted for the employee for purposes of applying this exception.

(c) Section 72(t)(4) provides that if the series of substantially equal periodic payments that is otherwise excepted from the 10-percent tax is subsequently modified (other than by reason of death or disability) within a 5-year period beginning on the date of the first payment, or, if later, age 59½, the exception to the 10-percent tax does not apply, and the taxpayer’s tax for the year of modification shall be increased by an amount which, but for the exception, would have been imposed, plus interest for the deferral period.

(d) Q&A-12 of Notice 89-25 sets forth three methods for determining whether payments to individuals from their IRAs or, if they have separated from service, from their qualified retirement plans constitute a series of substantially equal periodic payments for purposes of § 72(t)(2)(A)(iv).

(e) Final Income Tax Regulations that were published in the April 17, 2002, issue of the **Federal Register** under § 401(a)(9) provide new life expectancy tables for determining required minimum distributions.

SECTION 2. METHODS

.01 *General rule.* Payments are considered to be substantially equal periodic payments within the meaning of § 72(t)(2)(A)(iv) if they are made in accordance with one of the three calculations described in paragraphs (a) – (c) of this subsection (which is comprised of the three methods described in Q&A-12 of Notice 89-25).

(a) *The required minimum distribution method.* The annual payment for each year is determined by dividing the account balance for that year by the number from the chosen life expectancy table for that year. Under this method, the account balance, the number from the chosen life expectancy table and the resulting annual payments are redetermined for each year. If this method is chosen, there will not be deemed to be a modification in the series of substantially equal periodic payments, even if the amount of payments changes from year to year, provided there is not a change to another method of determining the payments.

(b) *The fixed amortization method.* The annual payment for each year is determined by amortizing in level amounts the account balance over a specified number of years determined using the chosen life expectancy table and the chosen interest rate. Under this method, the account balance, the number from the chosen life expectancy table and the resulting annual payment are determined once for the first distribution year and the annual payment is the same amount in each succeeding year.

(c) *The fixed annuitization method.* The annual payment for each year is determined by dividing the account balance by an annuity factor that is the present value of an annuity of \$1 per year beginning at the taxpayer's age and continuing for the life of the taxpayer (or the joint lives of the individual and beneficiary). The annuity factor is derived using the mortality table in Appendix B and using the chosen interest rate. Under this method, the account balance, the annuity factor, the chosen interest rate and the resulting annual payment are determined once for the first distribution year and the annual payment is the same amount in each succeeding year.

.02 *Other rules.* The following rules apply for purposes of this section.

(a) *Life expectancy tables.* The life expectancy tables that can be used to determine distribution periods are: (1) the uniform lifetime table in Appendix A, or (2) the single life expectancy table in § 1.401(a)(9)-9, Q&A-1 of the Income Tax Regulations or (3) the joint and last survivor table in § 1.401(a)(9)-9, Q&A-3. The number that is used for a distribution year is the number shown from the table for the employee's (or IRA owner's) age on his or her birthday in that year. If the joint and survivor table is being used, the age of the beneficiary on the beneficiary's birthday in the year is also used. In the case of the required minimum distribution method, the same life expectancy table that is used for the first distribution year must be used in each following year. Thus, if the taxpayer uses the single life expectancy table for the required minimum distribution method in the first distribution year, the same table must be used in subsequent distribution years.

(b) *Beneficiary under joint tables.* If the joint life and last survivor table in § 1.401(a)(9)-9, Q&A-3, is used, the survivor must be the actual beneficiary of the employee with respect to the account for the year of the distribution. If there is more than one beneficiary, the identity and age of the beneficiary used for purposes of each of the methods described in section 2.01 are determined under the rules for determining the designated beneficiary for purposes of § 401(a)(9). The beneficiary is determined for a year as of January 1 of the year, without regard to changes in the beneficiary in that year or beneficiary determinations in prior years. For example, if a taxpayer starts distributions

from an IRA in 2003 at age 50 and a 25-year-old and 55-year-old are beneficiaries on January 1, the 55-year-old is the designated beneficiary and the number for the taxpayer from the joint and last survivor tables (age 50 and age 55) would be 38.3, even though later in 2003 the 55-year-old is eliminated as a beneficiary. However, if that beneficiary is eliminated or dies in 2003, under the required minimum distribution method, that individual would not be taken into account in future years. If, in any year there is no beneficiary, the single life expectancy table is used for that year.

(c) *Interest rates.* The interest rate that may be used is any interest rate that is not more than 120 percent of the federal mid-term rate (determined in accordance with § 1274(d) for either of the two months immediately preceding the month in which the distribution begins). The revenue rulings that contain the § 1274(d) federal mid-term rates may be found at www.irs.gov/tax_regs/fedrates.html.

(d) *Account balance.* The account balance that is used to determine payments must be determined in a reasonable manner based on the facts and circumstances. For example, for an IRA with daily valuations that made its first distribution on July 15, 2003, it would be reasonable to determine the yearly account balance when using the required minimum distribution method based on the value of the IRA from December 31, 2002 to July 15, 2003. For subsequent years, under the required minimum distribution method, it would be reasonable to use the value either on the December 31 of the prior year or on a date within a reasonable period before that year's distribution.

(e) *Changes to account balance.* Under all three methods, substantially equal periodic payments are calculated with respect to an account balance as of the first valuation date selected in paragraph (d) above. Thus, a modification to the series of payments will occur if, after such date, there is (i) any addition to the account balance other than gains or losses, (ii) any nontaxable transfer of a portion of the account balance to another retirement plan, or (iii) a rollover by the taxpayer of the amount received resulting in such amount not being taxable.

.03 *Special rules.* The special rules described below may be applicable.

(a) *Complete depletion of assets.* If, as a result of following an acceptable method of determining substantially equal periodic payments, an individual's assets in an individual account plan or an IRA are exhausted, the individual will not be subject to additional income tax under § 72(t)(1) as a result of not receiving substantially equal periodic payments and the resulting cessation of payments will not be treated as a modification of the series of payments.

(b) *One-time change to required minimum distribution method.* An individual who begins distributions in a year using either the fixed amortization method or the fixed annuitization method may in any subsequent year switch to the required minimum distribution method to determine the payment for the year of the switch and all subsequent years and the change in method will not be treated as a modification within the meaning of § 72(t)(4). Once a change is made under this paragraph, the required

minimum distribution method must be followed in all subsequent years. Any subsequent change will be a modification for purposes of § 72(t)(4).

SECTION 3. EFFECTIVE DATE AND TRANSITIONAL RULES

The guidance in this revenue ruling replaces the guidance in Q&A-12 of Notice 89-25 for any series of payments commencing on or after January 1, 2003, and may be used for distributions commencing in 2002. If a series of payments commenced in a year prior to 2003 that satisfied § 72(t)(2)(A)(iv), the method of calculating the payments in the series is permitted to be changed at any time to the required minimum distribution method described in section 2.01(a) of this guidance, including use of a different life expectancy table.

SECTION 4. EFFECT ON OTHER DOCUMENTS

Q&A-12 of Notice 89-25 is modified.

SECTION 5. REQUEST FOR COMMENTS

The Service and Treasury invite comments with respect to the guidance provided in this revenue ruling. Comments should reference Rev. Rul. 2002-62.

Comments may be submitted to CC:ITA:RU (Rev. Rul. 2002-62, room 5226, Internal Revenue Service, POB 7604 Ben Franklin Station, Washington, DC 20044. Comments may be hand delivered between the hours of 8:30 a.m. and 5 p.m. Monday to Friday to: CC:ITA:RU (Rev. Rul. 2002-62), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue NW., Washington, D.C. Alternatively, comments may be submitted via the Internet at Notice.Comments@irs.counsel.treas.gov. All comments will be available for public inspection and copying.

Drafting Information

The principal author of this revenue ruling is Michael Rubin of the Employee Plans, Tax Exempt and Government Entities Division. For further information regarding this revenue ruling, please contact Mr. Rubin at 1-202-283-9888 (not a toll-free number).

Rev. Rul. 2002-62 FAQ

The IRS published an article on its web site entitled "FAQs regarding Revenue Ruling 2002-62" (see <http://www.irs.gov/retirement/article/0,,id=103045,00.html>) that includes examples of how to do the pre-59½ distribution calculations. Unfortunately, they used some rather unusual assumptions for doing the calculations.

For the Amortization method, the article illustrates a distribution that is taken at the end of each year. This is an easy enough calculation to do, except that Rev. Rul. 2002-62 limits the "reasonable interest rate" by the mid-term rates from the two months prior to the first distribution. Based on this discrepancy, the IRS must be expecting you to guess at the interest rate, or they are allowing an "end-of-period" methodology for a distribution that starts immediately.

For the Annuitization method, the article shows an annuity factor that uses the “curtate” approach to valuing annuities. This approach is not frequently seen in IRS calculations. In the past, the IRS has used the “complete” method for valuing annuities (IRS Publication 1457, for example) when using government tables.

The distribution calculations in the FAQ result in higher distribution amounts. The software allows you to use the FAQ's methodology—just select “Rev. Rul. 2002-62 FAQ.” When you have made this selection, the annuitization method will use the “curtate” method of valuing annuities, and the amortization method will use the "end-of-period" method (even though the distribution is assumed to start immediately).

IRS Notice 89-25 (Pre-59½ Distributions)

Q-11: Does the 10-percent tax under section 72(t) apply to amounts that are included in a plan participant's gross income pursuant to section 72(m)(3)?

A-11: No. Section 72(m)(3) provides generally that employer contributions and trust income that are treated under regulations as having been applied to the purchase of life insurance protection for a plan participant must be included in the participant's gross income. However, such an amount is not treated as a distribution for purposes of section 72(t).

Q-12: In the case of an IRA or individual account plan, what constitutes a series of substantially equal periodic payments for purposes of section 72(t)(2)(A)(iv)?

A-12: Section 72(t)(1) imposes an additional tax of 10 percent on the portion of early distributions from qualified retirement plans (including IRAs) includable in gross income. However, section 72(t)(2)(A)(iv) provides that this tax shall not apply to distributions which are part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the employee or the joint lives (or joint life expectancies) of the employee and beneficiary. Section 72(t)(4) provides that, if the series of periodic payments is subsequently modified within five years of the date of the first payment, or, if later, age 59 1/2, the exception to the 10 percent tax under section 72(t)(2)(A)(iv) does not apply, and the taxpayer's tax for the year of modification shall be increased by an amount, determined under regulations, which (but for the 72(t)(2)(A)(iv) exception) would have been imposed, plus interest. Payments will be considered to be substantially equal periodic payments within the meaning of section 72(t)(2)(A)(iv) if they are made according to one of the methods set forth below.

Payments shall be treated as satisfying section 72(t)(2)(A)(iv) if the annual payment is determined using a method that would be acceptable for purposes of calculating the minimum distribution required under section 401(a)(9). For this purpose, the payment may be determined based on the life expectancy of the employee or the joint life and last survivor expectancy of the employee and beneficiary.

Payments will also be treated as substantially equal periodic payments within the meaning of section 72(t)(2)(A)(iv) if the amount to be distributed annually is determined

by amortizing the taxpayer's account balance over a number of years equal to the life expectancy of the account owner or the joint life and last survivor expectancy of the account owner and beneficiary (with life expectancies determined in accordance with proposed section 1.401(a)(9)-1 of the regulations) at an interest rate that does not exceed a reasonable interest rate on the date payments commence. For example, a 50 year old individual with a life expectancy of 33.1, having an account balance of \$100,000, and assuming an interest rate of 8 percent, could satisfy section 72(t)(2)(A)(iv) by distributing \$8,679 annually, derived by amortizing \$100,000 over 33.1 years at 8 percent interest. Finally, payments will be treated as substantially equal periodic payments if the amount to be distributed annually is determined by dividing the taxpayer's account balance by an annuity factor (the present value of an annuity of \$1 per year beginning at the taxpayer's age attained in the first distribution year and continuing for the life of the taxpayer) with such annuity factor derived using a reasonable mortality table and using an interest rate that does not exceed a reasonable interest rate on the date payments commence. If substantially equal monthly payments are being determined the taxpayer's account balance would be divided by an annuity factor equal to the present value of an annuity of \$1 per month beginning at the taxpayer's age attained in the first distribution year and continuing for the life of the taxpayer. For example, if the annuity factor for a \$1 per year annuity for an individual who is 50 years old is 11.109 (assuming an interest rate of 8 percent and using the UP-1984 Mortality Table), an individual with a \$100,000 account balance would receive an annual distribution of \$9,002 ($\$100,000/11.109 = \$9,002$).

Minimum Distributions Incidental Benefit

Non-spousal distributions will be subjected to the Minimum Distribution Incidental Benefit (MDIB) requirement (see IRC Proposed Treas. Reg. §1.401(A)(9)-2). The MDIB requirement states that any distribution occurring after the Required Beginning Date must be less than the distribution that was calculated by dividing the balance of the plan by the MDIB Table divisor found in IRC Proposed Treas. Reg. §1.401 (a)(9)-2, Q-4. Generally, when the non-spousal beneficiary is more than ten years younger than the plan owner, the MDIB is triggered and results in a joint life expectancy factor, regardless of the actual age of the non-spousal beneficiary. Thus, during the lifetime of the plan owner but after the plan owner reaches age 70½, there is no difference in the minimum distribution payout amount, regardless of whether the non-spousal beneficiary is 15 or 30 years younger than the plan owner is.

The program always removes the MDIB limitation after the plan owner's death. Authority for Removal of MDIB after the death of the plan owner is found in IRS Publication 590 and IRC Proposed Treas. Reg. §1.401(a)(9)-2, Q&A Q-3. If the owner made an appropriate election before the required beginning date, a joint term certain method will be used after the plan owner's death (rather than just a single life term certain for the beneficiary in cases where the owner was using a recalculation method).

MDIB Table for Determining Applicable Divisor			
Age	Divisor	Age	Divisor
70	26.2	93	8.8
71	25.3	94	8.3
72	24.4	95	7.8
73	23.5	96	7.3
74	22.7	97	6.9
75	21.8	98	6.5
76	20.9	99	6.1
77	20.1	100	5.7
78	19.2	101	5.3
79	18.4	102	5.0
80	17.6	103	4.7
81	16.8	104	4.4
82	16.0	105	4.1
83	15.3	106	3.8
84	14.5	107	3.6
85	13.8	108	3.3
86	13.1	109	3.1
87	12.4	110	2.8
88	11.8	111	2.6
89	11.1	112	2.4
90	10.5	113	2.2
91	9.9	114	2.0
92	9.4	115 +	1.8

Minimum Distributions Options

Required Minimum Distributions: Calculations under the Final Regulations

After more than a decade of proposed regulations, final minimum distribution regulations were published on April 17, 2002. These new rules are based primarily on the proposed regulations of 2001, but they do add some new calculation wrinkles to consider.

As with the 2001 proposed regulations, the final regulations keep the basic calculation intact. Each year, the distribution is calculated by dividing the previous year's ending balance by a life expectancy number. The calculation complexity lies in determining the life expectancy number.

Here's how the new rules work:

Situation I: Owner still alive

If the owner is still alive, the life expectancy is taken straight from the Uniform Lifetime Table. Simply find the owner's age on the table (it covers ages 70 through 115), and use the life expectancy listed. For this situation, the only change caused by the 2002 final regulations was to update the numbers in the Uniform Lifetime Table.

Prior to 2001, the Uniform Lifetime Table was known as the MDIB table, and was used only for nonspousal beneficiaries. Now, it is used whenever the owner is alive, making the distribution calculation very straightforward. There is only one exception to this rule: cases involving spousal beneficiaries who are more than ten years younger than the

owner. In that case, the joint life expectancy of the owner and spouse is used. Once the owner dies, this exception no longer applies, and Situation 4 (see below) applies.

Situation 2: Owner dies with no beneficiary

In the year of death, the minimum distribution is still calculated according to Situation 1 (above). It's only in the years after the owner's death that this situation applies.

If the owner dies before the required beginning date, and there is no beneficiary alive as of the owner's death, the five year rule applies—all the money has to be distributed within five years of the year the owner died.

If the owner dies on or after the required beginning date, and there is no beneficiary alive as of the date of death, distributions after the owner's death are taken over a term based on the owner's life expectancy in the year of death. This calculation is easier than it sounds. For the year after death, subtract one from the owner's single life expectancy in the year of death. As each year passes, reduce the life expectancy by one. For example, if the owner died in 2003, the distribution in 2004 would be based on the owner's 2003 life expectancy minus one.

The new life expectancy tables used by the 2002 final regulations add some complexity to cases where the owner has already died. If distributions are being taken under this scenario, the length of the term has to be recalculated using the 2002 single life expectancy table. For example, if a plan owner died in 1995, the 2003 distribution would be based on the owner's life expectancy (using the new table) in 1995 reduced by 8. Under the 2001 proposed regulations, the beneficiary had to be alive as of 12/31 of the year following the owner's death to be considered valid. Under the 2002 regulations, the beneficiary only has to be alive when the owner dies to be considered.

Situation 3: Owner dies with nonspousal beneficiary

In the year of death, the minimum distribution is still calculated according to Situation 1 (above). It's only in the years after the owner's death that this situation applies.

When the owner dies with a nonspousal beneficiary, a term certain distribution period is established based on the designated beneficiary's single life expectancy in the year after the owner's death. Unlike Situation 2, in this case the term is based on a life expectancy calculated in the year after the owner's death, rather than the year of death. For example, if the owner died in 2003, the life expectancy used as the divisor in 2004 would be the beneficiary's single life expectancy in 2004. In 2005, the divisor used would be 2004's number minus 1. The life expectancy in the year after death is, of course, calculated using the new single life expectancy table, and, as with Situation 2, an existing term certain would have to be recalculated using the new table.

The 2002 final regulations add another wrinkle to those situations when the owner died on or after the required beginning date. In these situations, the life expectancy used is the greater of the one calculated using the "no beneficiary" case (situation 2), and the one resulting from the calculation described in the previous paragraph. This can get a little confusing, because the "no beneficiary" case starts with a term calculated in the year of

death, while the nonspousal beneficiary's term certain starts the year after the owner's death.

Situation 4: Owner dies with spousal beneficiary

In the year of death, the minimum distribution is still calculated according to Situation 1 (above). It's only in the years after the owner's death that this situation applies.

When the owner dies with a spousal beneficiary, the spouse gets special treatment. In this case, the distributions are based on the spouse's single life expectancy recalculated each year after the owner's death. If the owner dies prior to the calendar year in which he would have reached age 70½, the spouse does not have to start taking distributions until that year. Upon the spouse's death, the distributions become term certain, with the term set to the spouse's life expectancy in the year of death. This works the same as the old term certain method, with the life expectancy being reduced by one for each year that passes after the spouse's death.

As with situation 3, the 2002 final regulations add more complexity. For cases where the client dies on or after the required beginning date, the life expectancy used is the greater of the one calculated using the "no beneficiary" case (situation 2), and the one resulting from the calculation described in the previous paragraph.

When do these apply?

In 2002, there is the option of using either the pre-2001 proposed regulations (with all their calculation and recalculation options), the 2001 proposed regulations, and the 2002 final regulations. After 2002, only the 2002 final regulations may be used.

The 2002 final regulations added more than just a new mortality table to these calculations. They also added complexity. When all the different situations listed above are taken together, they represent a fairly complicated set of calculations that have to be correctly performed to make sure you calculate the correct distribution for your clients.

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Calculating Required Minimum Distributions using the 2001 Proposed Regulations:

The regulations released on 1/11/2001 radically changed the way minimum distributions have to be calculated. They eliminated a lot of complexity reduced the number of decisions made by a plan owner. These regulations eliminated the old recalculation options. There is no "hybrid method" or "joint term certain method." However, the new methodology does still have some similarities to the old. For example, the distribution is still calculated by dividing the previous year's balance by a life expectancy number. Here's how it works:

Situation 1: Owner still alive

If the owner is still alive, the distributions are based on the divisor found in the MDIB table for owner's age. The MDIB table is a published table of joint life expectancies for an owner and a beneficiary who is ten years younger than the owner. It simplifies the

calculation to only using the owner's age. No beneficiary information is needed, and no recalculation options are available. There is only one exception to this rule – for cases involving spousal beneficiaries that are more than ten years younger than the owner.

Situation 2: Owner dies with nonspousal beneficiary

When the owner dies with a nonspousal beneficiary, a term certain distribution period is established, based on the designated beneficiary's single life expectancy in the year after the owner's death. As with the old term certain method, this life expectancy is simply reduced by one for each year after it is calculated.

Situation 3: Owner dies with no beneficiary

This is the only situation where the owner's required beginning date is relevant. If the owner dies before the required beginning date, and there is no beneficiary alive as of 12/31 of the year following the owner's death, the five year rule applies – all the money has to be distributed within the next five years.

If the owner dies after the required beginning date, and there is no beneficiary alive as of 12/31 of the year following the owner's death, the distributions are taken out over a term based on the owner's life expectancy in the year of death. Once again, this works the same as the old term certain method, with the life expectancy being reduced by one for each year that passes after the owner's death.

Situation 4: Owner dies with spousal beneficiary

When the owner dies with a spousal beneficiary, the spouse gets special treatment. In this case, required distributions are generally based on the spouse's single life expectancy in each year after the owner's death.

If the owner dies prior to the calendar year in which he would have reached age 70½, the spouse does not have to start taking distributions until that year. However, if the owner dies before 12/31 of the calendar year in which he would have reached age 70½ and the spouse also dies before 12/31 of the calendar year in which the original owner would have reached age 70½, then the second-to-die spouse is treated as the new owner with the rules of Situation 2 being applied if the second-to-die spouse has a designated beneficiary or Situation 3 if there is no designated beneficiary.

If the spouse dies after the year in which the original owner would have turned 70½, the distributions become term certain, with the term set to the spouse's life expectancy in the year of death. Again, this works the same as the old term certain method, with the life expectancy being reduced by one for each year that passes after the spouse's death.

Situation 5: Owner dies and a spousal rollover

When the owner dies with a spousal beneficiary, the spouse has the option of doing a spousal rollover with the spouse becoming the new owner. In such a case, the rules of Situation 1 apply after the spouse becomes the new owner.

Situation 6: The Exception to Situation 1

The exception to situation 1 is when there is a spousal beneficiary who is more than 10 years younger than the owner. In this case, the life expectancy used while the owner is alive is the joint life expectancy of the owner and spouse, recalculated in each year. Once the owner dies, the exception no longer applies, and the distribution is handled according to the situations described above.

1987 Proposed Regulations (Pre-2001 Rules)**If the plan owner has not named a beneficiary**

If the plan owner has not named a beneficiary, then there are two methods for determining the plan owner's life expectancy each year: Term Certain method or Recalculation method. Use the Recalculate Owner's Life Exp. check box to determine the method:

- Term Certain method—Clear the Recalculate Owner's Life Exp. check box. The program uses Table V to determine the owner's life expectancy in for the Required Beginning Date (first year that distributions are required). Thereafter, the program subtracts one from the life expectancy each year.
- Recalculation method—Click the Recalculate Owner's Life Exp. check box. The program uses Table V to determine the life expectancy each year.

If the plan owner has named a beneficiary

Plan owners and beneficiaries have the ability to recalculate their life expectancies annually (see Note). If the plan owner has named a beneficiary, then there are actually four methods of recalculating life expectancies each year. Use the Recalculate Owner's Life Exp. and the Recalculate Beneficiary's Life Exp. check boxes to determine the method:

Joint Recalculation method—Click both check boxes. Both life expectancies are recalculated. The program uses Table VI to determine the minimum distribution from the life expectancies.

Joint Term Certain method—Clear both check boxes. Neither life expectancy is recalculated. Both the owner and the beneficiary use the term certain method. Both life expectancies decrease by 1 annually.

Hybrid method—Only click Recalculate Owner's Life Exp. The owner's life expectancy is recalculated and the beneficiary uses the term certain method. Using the beneficiary's deemed age ((determined using single life Table V) and the owner's actual age, the program uses joint life Table VI to determine the minimum distribution. Many planners recommend this method when the plan owner is older than the beneficiary.

Hybrid method—Only click Recalculate Beneficiary's Life Exp. The beneficiary's life expectancy is recalculated, and the owner uses the term certain method. Using the owner's deemed age (determined using single life Table V) and the beneficiary's actual age, the program uses joint life Table VI to determine the minimum distribution. Planners recommend this variant when the beneficiary is older than the plan owner.

Table V from Reg. Sec. 1.72- 9

Age	Multiple	Age	Multiple	Age	Multiple
5	76.6	43	39.6	81	8.9
6	75.6	44	38.7	82	8.4
7	74.7	45	37.7	83	7.9
8	73.7	46	36.8	84	7.4
9	72.7	47	35.9	85	6.9
10	71.7	48	34.9	86	6.5
11	70.7	49	34.0	87	6.1
12	69.7	50	33.1	88	5.7
13	68.8	51	32.2	89	5.3
14	67.8	52	31.3	90	5.0
15	66.8	53	30.4	91	4.7
16	65.8	54	29.5	92	4.4
17	64.8	55	28.6	93	4.1
18	63.9	56	27.7	94	3.9
19	62.9	57	26.8	95	3.7
20	61.9	58	25.9	96	3.4
21	60.9	59	25.0	97	3.2
22	59.9	60	24.2	98	3.0
23	59.0	61	23.3	99	2.8
24	58.0	62	22.5	100	2.7
25	57.0	63	21.6	101	2.5
26	56.0	64	20.8	102	2.3
27	55.1	65	20.0	103	2.1
28	54.1	66	19.2	104	1.9
29	53.1	67	18.4	105	1.8
30	52.2	68	17.6	106	1.6
31	51.2	69	16.8	107	1.4
32	50.2	70	16.0	108	1.3
33	49.3	71	15.3	109	1.1
34	48.3	72	14.6	110	1.0
35	47.3	73	13.9	111	.9
36	46.4	74	13.2	112	.8
37	45.4	75	12.5	113	.7
38	44.4	76	11.9	114	.6
39	43.5	77	11.2	115	.5
40	42.5	78	10.6		
41	41.5	79	10.0		
42	40.6	80	9.5		

Mortality Table

The program offers the 90CM Table, the §1.72 (1983 table listed in IRS Regulations §1.72-7(c)(1)(iii)), the UP-1984 Table (the UP-84 Table is only used in single life expectancy cases), and the 80CNSMT (1980 table from IRS publication 1457). The example in IRS Notice 89-25, 1989-1 C.B. 662 uses the UP-1984 Mortality Table. As of May 1, 1999, the IRS released the 90CM mortality table. This table replaces the older 80CNSMT. Between May 1, 1999, and June 30, 1999, you can use either the 80CNSMT or the 90CM. After June 30, 1999, do not use the 80CNSMT (REG-103851-99).

Note

Brentmark has permission to use the UP-1984 Table Copyright(c) 1976 Conference of Consulting Actuaries, All Rights Reserved.

Net After-Tax Assets

The Net After-Tax Assets is the sum of the Pension, Roth IRA, and Other Assets funds (plus Insurance Proceeds, if any) less income and estate taxes.

Since income and estate taxes are generally payable only after the death of the surviving spouse, the Net After-Tax Assets value assumes the death of the owner and the spouse each year with estate taxes being paid from the Other Assets, not the Pension Fund (if possible). In most cases, the surviving heir does not have to withdraw the entire balance from the Pension Fund or Roth IRA at the time of death. Instead, he or she can let the money grow tax-free or tax-deferred and withdraw the money according to minimum distribution rules. Often, this growth is over a long period of time because it is based on the heir's term certain life expectancy.

To reflect the effects of such deferral on the Net After-Tax Assets, select Estate Analysis: Max Deferral in the Main Inputs section. When select Estate Analysis: Max. Deferral, the program calculates the Net After-Tax Assets using the following formula:

Net After-Tax Assets = P.V. of Future After-Tax Distributions

+ Distributions to Other Assets

- Federal Estate Tax

- State Death Tax

If you clear Estate Analysis: Max Deferral, the program does not include the Present Value of Future After-Tax Distributions because there is no deferral term.

To see how the program calculates the Net After-Tax Assets, view the Estate Analysis Report.

Present Value of Future After-Tax Distributions

This is the present value of all future distributions (after income tax) that the heir will take from the Pension Fund and/or the Roth IRA over the heir's term certain life expectancy, or deferral term. The program uses the after-death Discount Rate to calculate the present value of future after-tax distributions. Then the program uses the present value of future after-tax distributions to calculate the Net-After Tax Assets.

In most cases, the surviving heir does not have to withdraw the entire balance from the Pension Fund or Roth IRA after the death of the plan owner or the second to die. Instead, he or she can let the money grow tax-deferred or tax-free and withdraw the money according to minimum distribution rules. Often, this growth is over a long period of time because it is based on the heir's term certain life expectancy. When you click Estate Analysis: Max. Deferral in the Main Inputs section, the program assumes that the heir takes advantage of the deferral.

To see how the program uses the Present Value of Future After-Tax Distributions to calculate the Net After-Tax Assets, view the Estate Analysis Report.

Reasonable Interest Rate

A so-called “reasonable” interest rate is required when using the Amortization or Annuitization methods to compute a pre-59½ pension plan distribution that avoids the 10% penalty for early distributions (see IRS Notice 89-25, 1989-1 C.B. 662, Q&A 11 and 12). In various letter rulings, the IRS has accepted use of the 120% Annual Long-Term Applicable Federal Rate for the month in which distributions start. Some commentators read some of the rulings as saying that you should use 120% of the Annual Long-Term Rate, which is slightly different. However, the difference may be seen as de minimus. If you judge this rate to be appropriate, it may be used in the Pension Distributions Calculator.

Note

Letter Rulings cannot be used as binding authority for IRS positions. Since the IRS has not issued any rulings other than Letter Rulings on the topic of "reasonable" interest rates for pre-59½ distributions, there is no binding authority on this topic.

The IRS has accepted use of the Annual Long-Term 120% Applicable Federal Rate. These rates are posted on Brentmark’s web site, <http://www.brentmark.com>.

Chapter 22

Report Listing

Distributions Breakdown Report

The Distributions Breakdown report helps you see how much of each distribution is going to income taxes, insurance premiums, gift fund contributions, income, and, finally, how much is left for the Other Assets.

Report Values

- Year
- Annual Distributions
- Distribution From Other Assets
- Income Tax on Pension Distributions
- Income Tax on Other Assets Distributions
- Income Tax on Roth IRA Distribution
- Penalty on Pension Distributions
- Penalty on Roth IRA Distribution
- FET Deduction Used by Distributions
- Total Conversion Tax Paid
- Distributions to Gift Fund
- Distributions to Insurance
- Distributions to Income
- Distributions to Other Assets

Donee Exclusion Gifting Analysis Report

The Donee Exclusion Gifting Analysis report shows how much money each fund pays toward donee exclusion gifts. The report also lists the annual value of the gift fund.

Report Values

- Year
- Gift Fund Begin Value
- Gift Fund Contribution
- Pension Fund Distributions to Gift Fund
- Roth IRA Distributions to Gift Fund
- Taxes at Death Paid from Gift Fund
- Gift Fund Ending Value

Estate Analysis Report

The Estate Analysis report illustrates the calculation of the Net After-Tax Assets. The report assumes that the owner and spouse (if there is one) die by the end of each year. The report also shows the effects of estate taxes and income taxes on the Other Assets. If you have not clicked Estate Analysis: Max. Deferral in the Main Inputs section, the report will not include a P.V. of Future After-Tax Distributions column. In such a case, the heir withdraws the entire balance of the plan after the death of both the plan owner and the beneficiary.

Report Values

- Year
- Roth IRA Ending Value
- Pension Fund Ending Value
- Other Assets Ending Value
- Gift Fund Ending Value
- Unpaid Roth IRA Taxes
- Federal Estate Tax
- State Death Tax
- Income Tax on Pension Fund
- Pension Deferral Term
- Roth Deferral Term
- P.V. of Future After-Tax Distributions
- Insurance Proceeds
- Net After-Tax Assets

Insurance Analysis Report

The Insurance Analysis report displays the amount of money distributed for payment of premiums and shows the benefit of the proceeds to the Net After-Tax Assets.

Report Values

- Year
- Insurance Premium
- Distributions to Insurance
- Insurance Proceeds
- Taxes at Death Paid from Insurance
- Pre-Insurance Net Assets
- Net After-Tax Assets

Life Expectancies Analysis Report

The Life Expectancies report simply lists all the life expectancies that are calculated for each year.

Report Values

- Year
- Owner L/E
- Spouse L/E
- Joint L/E
- 2nd Benef L/E
- 2nd Joint L/E
- Life Exp
- Roth IRA Benef. Life Exp
- Pension Deferral Term
- Roth Deferral Term

Minimum Distributions Life Expectancy Analysis Report

This report shows the different minimum distribution multiples that could be used in each year. It helps illustrate what would happen to the distributions if death were to occur.

Report Values

- Year
- Owner Age
- Benef Age
- Benef Deemed Age
- Multiple if Both Alive
- Multiple if Only Client Alive
- Multiple if Only Spouse Alive
- Multiple if Neither Alive

Minimum Distributions Report

The Minimum Distributions Report lists the following information:

Year

This column lists each year that the program calculates a distribution. By default, the program displays years of death for the owner and beneficiary in red. You can change the color using the

Age

This column lists the owner's age in each year.

Plan Balance

This column lists the total amount of money in the owner's pension plan in each year. To calculate the Plan Balance for each year, the program uses the following formula:

$$(\text{Current Plan Balance}) * (1 + \text{Expected Plan Growth}) - (\text{Calculated Distribution}) + (\text{Contributions})$$

Life Expectancy Factor

This column lists the life expectancy factors that are used to calculate the minimum distribution. To calculate the life expectancy factors, the program uses the ages of the Owner and/or the Beneficiary and applies them to the minimum distribution rules.

Minimum Distribution Amount

This column lists the minimum distribution in each year. To calculate the minimum distribution amount, the program amortizes the Plan Balance over the Life Expectancy factor.

Other Assets Analysis Report

This report shows all the activity (contributions, distributions, growth, etc.) that affects the Other Assets each year.

Report Values

- Year
- Other Assets Begin Value
- Distributions to Other Assets
- Net Amount From Taxable Annuity
- Other Assets Contribution
- Other Assets Ending Value
- Adjustment to Other Assets
- Distribution From Other Assets
- Income Tax on Other Assets Distributions
- Tax Saved by Pension Contribution
- Other Assets Net Growth

Other Assets Growth Analysis Report

The Other Assets Growth Analysis report illustrates how the Other Assets growth is taxed in each year. When you enter a Percent of Growth Realized that is less than 100%, the calculation of the tax on that growth depends on how much is realized in each year. This report shows you how that calculation works.

Report Values

- Year
- Other Assets Begin Value
- Pre-Tax Fund Growth
- Realized Growth
- Tax on Fund Growth
- Unrealized Growth
- Other Assets Net Growth

Pension Fund Analysis Report

This report shows all the activity (contributions, distributions, growth, etc.) that affects the Pension Fund in each year.

Report Values

- Year
- Pension Fund Begin Value
- Pension Contribution
- Pension Fund Distributions
- Roth IRA Conversion
- Conversion Tax Paid From Pension Fund
- Pension Fund Growth
- Pension Fund Ending Value
- Taxes at Death Paid from Pension Fund

Pre-59½ Distributions Analysis Report

When you use the Pre-59½ Distributions, the results of these calculations appear in every report; however, the report that appears in the Main window displays results with growth that has been compounded annually. Therefore, results that appear in the Pre-59½ Distributions window may have different balances.

Pre-59½ distributions have to last for 5 years and must be paid until the plan owner reaches age 59½. Usually, this results in distributions being made for a portion of the year that the owner reaches age 59½. For example, if distributions are being taken quarterly, and the plan owner turns age 59½ in February 2010, only the first distribution has to be in 2010. If distributions occur at the end of each quarter, no distributions would have to be made in 2010 (assuming that five years worth of distributions have already been taken).

Report Values

- Year
- Pension Fund
- Owner's Age
- Life Exp.
- Distributions

Roth IRA Analysis Report

This report shows all the activity (contributions, distributions, growth, etc.) that affects the Roth IRA in each year.

Report Values

- Year
- Roth IRA Begin Value
- Roth IRA Conversion
- Roth IRA Contribution
- Roth IRA Distributions
- Conversion Tax Paid From Roth IRA
- Roth IRA Growth
- Roth IRA Ending Value
- Taxes at Death Paid from Roth IRA

Roth IRA Distributions Report

Once the owner of a Roth IRA dies, there is a minimum distribution to the surviving beneficiary. The Roth IRA Distributions report shows you the distribution and the life expectancy that the program uses to calculate the distribution.

Report Values

- Year
- Benef. Age
- Roth IRA Begin Value
- Roth IRA Benef. Life Exp
- Roth IRA Distributions
- Cumulative Roth IRA Distributions

Roth IRA Taxes & Penalties Report

The Roth IRA Taxes and Penalties report shows the taxes generated both by the Roth IRA conversion and by any distributions taken from the Roth IRA within five years of that conversion.

Report Values

- Year
- Roth IRA Distributions
- Roth IRA Conversion
- Conversion Tax Paid From Other Assets
- Conversion Tax Paid From Roth IRA
- Conversion Tax Paid From Pension Fund
- Income Tax on Roth IRA Distribution
- Penalty on Roth IRA Distribution

Summary Report

The Summary report provides you with an overview of the analysis. It shows how money is moving between funds and how this movement affects the Net After-Tax Assets. This report does not read left to right; adding from left to right will not produce the Net After-Tax Assets. This report simply displays columns of numbers that are important to summarizing an analysis.

Report Values

- Year
- Pension Fund Begin Value
- Roth IRA begin Value
- Annual Distributions
- Other Assets Ending Value
- Net After-Tax Assets

Taxable Amount of Pension Fund Report

This report shows how the Federal Estate Tax Deduction is calculated in each year.

Report Values

- Year
- Taxable Estate
- Estate Tax (charged on the entire taxable estate)
- Taxable Estate (without Pension Fund)
- Estate Tax (without Pension Fund)
- Federal Estate Tax Deduction (which equals the amount of estate tax attributed to the Pension Fund)
- Pension Fund (subject to income tax)

Taxable Estate Analysis Report

This analysis shows how the Taxable Estate is calculated each year.

Report Values

- Year
- Roth IRA Ending Value
- Pension Fund Ending Value
- Other Assets Ending Value
- Total Funds Ending Value
- Equivalent Exemption
- Unpaid Roth IRA Taxes
- Taxable Estate

Total Funds Ending Value Report

This analysis shows the total (pre-tax) funds at the end of each year.

Report Values

- Year
- Roth IRA Ending Value
- Pension Fund Ending Value
- Other Assets Ending Value
- Total Funds Ending Value
- Gift Fund Ending Value

Total Pension & IRA Distributions Report

The Total Distributions report illustrates the total value of all distributions from the Pension Fund and the Roth IRA. This report includes the income tax charged on the Pension Fund Distribution. The report effectively illustrates the calculation of the Cumulative Combined Distribution number.

Report Values

- Year
- Pension Fund Distributions
- Income Tax on Pension Distributions
- Roth IRA Distributions
- Yearly After-Tax Distributions
- Cumulative After-Tax Distributions

Cumulative After-Tax Distributions Report

This report compares the total amount of money distributed from the Pension Fund and Roth IRA through each year.

Cumulative Net Proceeds Report

This report compares the net cumulative amount of money spent from all the funds to pay living expenses, make gift fund contributions, and pay insurance premiums. This value is only useful if you have indicated that some of these costs apply

Net After-Tax Assets Report

This report compares the value of the assets to the family, assuming the 2nd -to-die of the plan owner and spouse has died by the end of each year. If Estate Analysis: Max Deferral is selected, the Net After-Tax Assets includes the present value of the future after-tax distributions that the heir can take.

Other Assets Ending Value Report

This report compares the balances of the Other Assets at the end of each year.

Pension Fund Distributions Report

This report compares the distributions from the Pension Fund in each year.

Pension Fund Ending Value Report

This report compares the balances of the Pension Fund at the end of each year.

Roth IRA Ending Value Report

This report compares the balances of the Roth IRA at the end of each year.

Yearly After-Tax Distributions Report

This report compares the net distribution from the Pension Fund and Roth IRA in each year.

Chapter 23

Descriptions of the Available Values

Following is a complete list of every value that appears in the program's reports. These values appear in the Available Values box in the Report Designer. You can use the Report Designer to create custom reports. For more information about the Report Designer, see Chapter 17, *Designing a Report*.

Value	Description
2nd Benef L/E	The spousal beneficiary's life expectancy in each year.
2nd Joint L/E	The joint life expectancy of the secondary beneficiary and either the owner or the owner's spouse each year.
Adjustment to Other Assets	The amount of adjustment to Other Assets in each year.
After-Tax Pension Fund Distributions	The net distribution from the Pension Fund in each year.
AGI	The annual adjusted gross income used to calculate annual income taxes.
Amount Needed For Gift Fund	The total amount of money needed annually for Donee-Exclusion Gifting.
Amount Needed For Income	The total amount of money needed annually for living expenses.
Amount Needed For Ins. Premium	The total amount of money needed annually to pay life insurance premiums.
Annual Distributions	The annual distribution from the Pension Fund and Roth IRA.
Benef. Age	The IRA beneficiary's age in each year.

Conversion Tax Paid From Other Assets	The annual amount of Roth IRA conversion taxes paid from the Other Assets.
Conversion Tax Paid From Pension Fund	The annual amount of Roth IRA conversion taxes paid from the Pension Fund.
Conversion Tax Paid From Roth IRA	The annual amount of Roth IRA conversion taxes paid from the Roth IRA.
Converted Balance of Roth IRA	The taxable conversion portion of the Roth IRA beginning balance in each year.
Cumulative After-Tax Distributions	The total amount of money distributed from the Pension Fund and Roth IRA through annually.
Cumulative Net Proceeds	The net cumulative amount of money spent (from all the funds) to pay living expenses, make gift fund contributions, and pay insurance premiums. This value is only useful if you have indicated that some of these costs apply.
Cumulative Pension Distributions	The total amount of money distributed from the Pension Fund annually.
Cumulative Roth IRA Distributions	The total amount of money distributed from the Roth IRA annually.
Distribution From Other Assets	The annual distribution taken from the Other Assets.
Distributions to Gift Fund	The total amount distributed for Donee-Exclusion Gifting in each year.
Distributions to Income	The total annual distribution for Living Expenses.
Distributions to Insurance	The total annual distribution for amount for insurance premiums.

Distributions to Other Assets	The amount taken from the Pension Fund and the Roth IRA for the Other Assets in each year.
Earnings Balance of Roth IRA	The earnings portion of the Roth IRA beginning balance in each year.
Entered AGI	The annual base adjusted gross income that is used to calculate income taxes.
Equivalent Exemption	The equivalent exemption for federal estate taxes in each year.
Estate Tax (Whole Estate)	The annual federal estate tax on the total taxable estate.
Estate Tax (Without Pension)	The annual federal estate tax on the taxable estate if there were no Pension Fund.
Federal Estate Tax Deduction	The annual federal estate tax attributable to the Pension Fund.
Federal Estate Tax	The federal estate tax due if plan owner dies at end of each year.
FET Deduction Used by Distributions	The annual amount of federal estate tax deduction used by the Pension Fund distribution.
Gift Fund Begin Value	The balance of the Gift Fund at the beginning of each year.
Gift Fund Contribution	The amount of money contributed to the gift fund in each year.
Gift Fund Ending Value	The balance of the Gift Fund at the end of each year.
Growth Rate of Other Assets	The annual percent increase of Other Assets.

Growth Rate of Pension Fund	The annual percent increase of a Pension Fund.
Growth Rate of Roth IRA	The annual percent increase of a Roth IRA.
Heir's AGI	The heir's annual adjusted gross income used to calculate income taxes.
Income Tax on All Distributions	The total income tax generated by all distributions annually.
Income Tax on Conversion	The income tax due on the Roth IRA Conversion annually.
Income Tax on Other Assets Distributions	The annual income tax generated by distributing unrealized growth from the Other Assets throughout each year.
Income Tax on Pension Distributions	The annual income tax on Pension Fund distributions.
Income Tax on Pension Fund	The annual income tax on the Pension Fund if owner dies at end of each year.
Income Tax on Roth IRA Distribution	The amount of income taxes generated by the Roth IRA distribution in each year.
Insurance Premium	The annual amount of the insurance premiums.
Insurance Proceeds	The total amount of 2nd-to-die life insurance proceeds which would be payable annually.
Joint L/E	The annual joint life expectancy of the owner and beneficiary. This value is set to 0 after a spousal rollover to indicate that it is no longer used.
Life Exp	The life expectancy used to calculate minimum distributions each year.

Minimum Distributions	The minimum required Pension Fund distribution in each year.
Money Lost to Taxes	The total amount of taxes paid annually.
Net After-Tax Assets	The value of the assets to the family, assuming the 2nd-to-die of the owner and spouse has died by the end of each year. If maximum deferral is indicated, it includes the present value of the future distributions the heirs can take.
Net Amount From Taxable Annuity	The annual net value of the Taxable Annuity. This amount is reinvested in the Other Assets.
Net Cumulative Pension Distributions	The total net amount of money distributed from the Pension Fund through each year.
Net Proceeds	The net amount of money taken from all the funds in each year.
Other Assets Begin Value	The balance of the Other Assets at the beginning of each year.
Other Assets Contribution	The annual amount of money contributed to the Other Assets.
Other Assets Ending Value	The balance of the Other Assets at the end of each year.
Other Assets Net Growth	The annual net growth of Other Assets.
Owner Age	The IRA owner's age in each year.
Owner L/E	The owner's life expectancy in each year.

P.V. of Future After-Tax Distributions	The total distributions deferred over survivor's life expectancy, starting in each year.
Penalty on Pension Distributions	The 10% penalty on Pension Fund distribution in each year.
Penalty on Roth IRA Distribution	The 10% penalty charged on Roth IRA distribution in each year.
Penalty on Total Distributions	The total 10% penalty on Pension Fund and Roth IRA distributions in each year.
Pension Contribution	The amount of money contributed to the Pension Fund in each year.
Pension Deferral Term	The deferral period available to survivors for taking money out of Pension Fund in each year.
Pension Fund Begin Value	The balance of the Pension Fund at the beginning of each year.
Pension Fund Distributions to Gift Fund	The amount taken from the Pension Fund for Donee-Exclusion Gifting in each year.
Pension Fund Distributions to Income	The amount taken from the Pension Fund to pay Living Expenses in each year.
Pension Fund Distributions to Insurance	The amount taken from the Pension Fund for insurance premiums in each year.
Pension Fund Distributions to Other Assets	The amount taken from the Pension Fund for the Other Assets in each year.
Pension Fund Distributions	The distribution from the Pension Fund in each year.

Pension Fund Ending Value	The balance of the Pension Fund at the end of each year.
Pension Fund Growth	The amount of Pension Fund growth in each year.
Pension Fund Non-Deductible Balance	Non-deductible balance at the end of each year.
Pension Fund Subject to Income Tax	The amount of the Pension Fund subject to income tax in each year.
Pension Funds Begin Value	The total qualified plan balance at the beginning of each year.
Pension Funds Ending Value	The total qualified plan balance at the end of each year.
Pre-Insurance Net Assets	The net value of assets to heirs if there was no life insurance, assuming owner is dead at end of each year.
Pre-Tax Fund Growth	The pre-tax growth of Other Assets in each year.
Realized Growth	The total amount of Other Assets growth realized in each year.
Roth Deferral Term	The deferral period available to survivors for taking money out of Roth IRA in each year.
Roth IRA Begin Value	The balance of the Roth IRA at the beginning of each year.
Roth IRA Benef. Life Exp	The life expectancy used to calculate Roth IRA minimum distributions in each year.

Roth IRA Contribution	The amount of money contributed to the Roth IRA in each year.
Roth IRA Conversion	The amount of money converted to a Roth IRA in each year.
Roth IRA Distribution Tax & Penalty	The amount of income taxes and penalties caused by the Roth IRA distribution in each year.
Roth IRA Distributions to Gift Fund	The amount taken from the Roth IRA for Donee-Exclusion Gifting in each year.
Roth IRA Distributions to Income	The amount taken from the Roth IRA to pay Living Expenses in each year.
Roth IRA Distributions to Insurance	The amount taken from the Roth IRA for insurance premiums in each year.
Roth IRA Distributions to Other Assets	The amount taken from the Roth IRA for the Other Assets in each year.
Roth IRA Distributions	The annual distribution from the Roth IRA.
Roth IRA Ending Value	The balance of the Roth IRA at the end of each year.
Roth IRA Growth	The amount of Roth IRA growth in each year.
Secondary Benef. Age	The age of the spouse's beneficiary in each year.
Spouse L/E	The beneficiary's life expectancy in each year.
State Death Tax	The state death tax (catch up tax) due if plan owner dies at end of each year.

Tax on Fund Growth	The amount of tax on the growth of Other Assets in each year.
Tax Rate At Death	The income tax rate charged to Pension Fund if owner has died by end of each year.
Tax Rate On Distributions	The income tax rate on Pension Fund distributions in each year.
Tax Rate On Growth	The income tax rate used on growth of Other Assets in each year.
Tax Saved by Pension Contribution	The amount of tax savings generated by Pension Fund contributions in each year.
Taxable Annuity	The total amount of the taxable annuity in each year.
Taxable Estate (Without Pension)	The taxable estate if there were no Pension Fund in each year.
Taxable Estate	The total taxable estate in each year.
Taxes at Death Paid from Gift Fund	The death taxes paid from gift fund in each year.
Taxes at Death Paid from Insurance	The death taxes paid from insurance proceeds in each year.
Taxes at Death Paid from Other Assets	The total death taxes needed from Personal Fund in each year.
Taxes at Death Paid from Pension Fund	The total death taxes needed from Pension Fund in each year.

Taxes at Death Paid from Roth IRA	The total death taxes needed from Roth IRA in each year.
Total Conversion Tax Paid	The amount of money spent to pay Roth IRA conversion taxes in each year.
Total Funds Begin Value	The total amount of funds at the beginning of each year.
Total Funds Ending Value	The total amount of funds at the end of each year.
Total Tax on Distributions	The total income tax on Pension Fund and Roth IRA distributions in each year.
Total Taxes At Death	The total federal and state death taxes due if plan owner dies at end of each year. If there is no deferral, this value includes the income tax on the Pension Fund.
Unpaid Roth IRA Taxes	The amount of income taxes due on the Roth IRA if the Roth IRA were liquidated at the end of each year.
Unrealized Growth	The total amount of Other Assets growth that is still not realized at the end of each year.
Value of Funds Available at Death	The total amount of cash given to heirs, assuming owner dies at end of each year.
Year	The year.
Yearly After-Tax Distributions	The net distribution from the Pension Fund and Roth IRA in each year.

Chapter 24

Sample Cases

Minimum Distributions Analysis

If you're looking to create a simple analysis that calculates required minimum distributions, this is the easiest way to do it. In this simple analysis, you will not enter any additional contributions, distributions, living expenses, conversions, or insurance premiums and proceeds. If you only want to see required minimum distributions, this other information is not required.

Review the Input Assumptions. On the **Edit** menu, click **Input Assumptions**.

Enter data in the top portion of the **Main Inputs** section.

Then enter data for Alternative 1.

Now, from the buttons on the left side of the window, click **Reports** (the bottom button). The Reports section appears. You'll see four tabs at the top of the section. The **Recommended** tab will be highlighted. Click **Minimum Distributions**.

Pre-59½ Distributions Analysis

If you're looking to create a simple analysis that calculates Pre-59½ Distributions, this is the easiest way to do it. In this simple analysis, you will not enter any additional contributions, distributions, living expenses, conversions, insurance premiums or proceeds, or tax information. If you're only looking to see the Pre-59½ Distributions that plan owners need to avoid the 10% penalty, this other information is not required.

From **Quick Calcs** menu, click **Pre-59½ Distributions**. The Pre-59 ½ Distributions Calculator appears.

Next, enter the appropriate data in the Pre-59½ Distributions Calculator. As you enter data, the report below the calculator reflects the data changes. When you've completed your data entry, just view the report. If you'd like, you can print the report directly from the Pre-59½ Distributions Calculator.

To include the Pre-59½ Distributions in the rest of the analysis, click **Use Distrib**.

Roth IRA Conversions in the Current Year

If you're looking for a quick way to model three common Roth IRA scenarios, use Quick Conversion. Quick Conversion creates the three following scenarios:

- No Conversion to a Roth IRA
- 100% Conversion to a Roth IRA in the current year—Taxes paid from the Other Assets fund
- 100% Conversion to a Roth IRA in the current year—Taxes paid from the Roth IRA

On the Quick Calc menu, click Quick Roth IRA Conversion. Follow the three steps on the screen. After completing Quick Conversion, the Comparison of Net After-Tax Assets report appears.

Partial Conversions or Roth IRA Conversions in Different Years

If you want to see the effects of multiple partial conversions, or you want to see the effects of conversions that occur in different years, you can use the following procedure:

1. Enter the Input Assumptions.
2. Enter data in the top portion of the Main Inputs section.
3. Create your Alternatives.
4. Click the **Roth IRA** button. The Roth IRA section appears. Click the **Conversions** tab and enter the conversion data.
5. Click the **Taxes** button. The Taxes section appears. Select the method of calculating income tax.
6. In the **Taxes** section, click the **Conversion Tax** tab. For each Alternative, select the fund from which conversion taxes will be paid.
7. Click the Reports button. The Reports section appears. You'll see four tabs at the top of the section. The **Recommended** tab will be highlighted. Click Comparison of Net After-Tax Assets.

Note

Using this procedure, you can certainly add data using other input sections of the program.

Chapter 25

Getting Help

If you need help, it's easy to find. Click the question mark wherever it appears in the program and a Help topic appears for the window in which you are working. Also, use the Help menu and the program's Help system. If you still need help, Brentmark provides technical support.

Help Menu

Use the Help menu on the Menu bar to access the Help system, learn how to use Help, or view information about this product and other Brentmark products.

Help System

The program provides a complete Help system, so you can get help whenever you need it. Just click the question mark that appears in the top right corner of every data entry section. Use the Help system's table of contents to view Help topics by category or search the Help index for specific terms.

Technical Support

Technical Support is available by telephone, Fax, e-mail, or postal mail. If you have questions concerning program calculations, please have a list of your exact data entry values available when contacting us.

Telephone

Assistance by telephone is available Monday through Friday between 9:00 AM and 6:00PM Eastern Standard Time at (407) 306-6160.

Fax

For assistance by fax, send your fax to (407) 306-6107.

E-mail

For assistance via e-mail, send your remarks to support@brentmark.com.

Postal Mail

For assistance by postal mail, write to:

Brentmark Software, Inc.
3505 Lake Lynda Drive, Suite 212
Orlando, FL 32817-8327

In your correspondence, please include the following information:

- The name of the person who registered the program.
- A contact phone number.
- The program name and version number.
- Your system configuration.
- A sample printout or description of the problem.
- A list of any error messages that have appeared.

Brentmark on the Web

On the toolbar, click the globe graphic to access Brentmark's website.

Chapter 26

Articles

The following copyrighted articles are available exclusively on the Roth IRA Web Site: www.rothira.com. Reprint rights to the articles are freely granted. However, you must contact Brentmark first to receive an acknowledgement that will grant you reprint permission. We also need to know where you would like to republish the article.

Five Financial Features that make Conversion to a Roth IRA So Desirable

By Gregory Kolojeski

There are five financial or economic features of a Roth IRA conversion that make it so attractive. The first three are the most important. If you can take full advantage of the first three, a conversion to a Roth IRA is usually a dunk shot. If you take significant advantage of the first two features, you will usually be ahead of the game (in many cases, this will be true even if you pay the conversion taxes from the IRA itself). If you take advantage of only one of the first three, you sometimes still come out ahead, but not always. In many cases, the presence of two of the first three features will even outweigh unfavorable income tax bracket situations. Despite what many articles suggest, income tax bracket considerations are usually of little importance if you can take advantage of the most favorable aspects of the Roth IRA.

1. Post-70½ Deferral

This is the tax-free growth and compounding that occurs after the point at which required minimum distributions would have been required under an ordinary IRA. This feature is tremendously important. If either the husband or wife survive past age 70½, the additional growth offered by withdrawing little or nothing for as long as possible adds tremendous value.

2. After-Death Tax-Free Growth

After the husband and wife die, the beneficiary will often be a child or even a grandchild. It will not be unusual for such a beneficiary to have a 30 to 60 year life expectancy for required distributions. The beneficiary takes such distributions tax-free with the balance of the plan growing tax-free in the meantime. This feature is tremendously valuable if one takes advantage of it.

3. Gross-up of IRA Value by Paying Conversion Taxes from Other Assets

If one has the financial ability to pay the conversion taxes (i.e., the income taxes) from other assets rather than from the IRA itself, you are effectively grossing up the value of the Roth IRA. You are effectively converting taxable assets to tax-free assets.

4. Four-Year Spreadout of Conversion Taxes for 1998 Conversions

The value of this feature is generally overrated. Nonetheless, it is another piece with significant value even if it much less important than the previous three features.

5. Prepayment of Income Tax Temporarily Lowers Federal Estate Tax

When you pay the income tax on the conversion, you are effectively prepaying the income tax. In the short-run, this has the effect of lowering the federal estate tax. This effect ameliorates the hit of the income tax. Of course, in the long-run, the federal estate hit will go up since the Roth IRA will usually increase in value so much faster than an ordinary IRA that you will eventually have more assets that are taxable for estate tax purposes. But having more assets (for you or your beneficiary) is the goal here. Of course, this feature is only important to those who are subject to federal estate tax.

Evaluating the Roth IRA: How much Deferral Can You Handle?

By Gregory Kolojeski

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The Name of the Game is Deferral

For the Roth IRA, the name of the game is deferral. When all is said and done, what makes the Roth IRA such a wonderful wealth accumulation device is not just the tax-free nature of distributions. The power of this concept is the potential of additional decades of tax deferral beyond what is offered by an ordinary IRA. Even with a Roth IRA, the tax-free growth will eventually end as required distributions convert the IRA assets back to property that generates taxable income.

An ordinary IRA also offers considerable tax deferral. Ordinary IRAs also give you an upfront tax deduction as well. The price you pay is taxation at ordinary income rates when you are forced to start taking withdrawals starting in your age 70½ year. With a Roth IRA, you get no upfront tax deduction, but you do get tax-free withdrawals (after a five year period). If this were the only distinction, the analysis of the advantage (if any) of the Roth IRA would hinge largely on income tax rates. If income tax rates at the time of withdrawal were to be lower than at the time of contribution (or conversion), then the Roth IRA would generally be less attractive than an ordinary IRA would. (The word generally is used because there are exceptions even to that premise, especially when the federal estate tax is factored in.)

No Minimum Distributions at Age 70½

What makes the Roth IRA so powerful is that minimum distribution rules do not kick in for the participant's age 70½ year. There are no required minimum distributions until after the death of the participant. If he lives until age 85, there will have been an additional 15 years of tax deferral to that point. And there is potentially 15 more years of continuing contributions as well (if there was earned income during that period). Ignoring the possibility of a spousal beneficiary (or a spousal rollover) for the moment, let's

assume that required minimum distributions now start the year following the participant's year of death. Those distributions will be payable to the participant's beneficiary using a single life term certain method. Let's assume that the beneficiary is a child 25 years younger than the participant is. The beneficiary would now receive tax-free distributions over a 24-year period (based on a single life expectancy of 23.3 being decreased by 1 each year). Even if the beneficiary died during that period, the distributions need not be accelerated, but could continue tax-free to the recipient for the full 24 years!

From an economic viewpoint, what is happening when the participant's beneficiary is forced to take minimum distributions (as in the preceding example for 24 years)? You can look at that distribution period as being the period in which tax-free growth is eventually converted to taxable growth. Each required minimum distribution is itself tax-free, of course. If that required distribution is itself invested, that ensuing growth will then usually be taxable. Thus, distributions over 24 years could create a new fund whose growth is taxable. Yet, there is a lot of tax deferral being accomplished during the 24-year period. This is on top of the tax deferral that occurred during the participant's life.

Spousal Rollover Increases Deferral Period

Now, let's assume that the participant dies at 85 with a surviving spouse as the designated beneficiary. Let's assume she is age 80 at the time and now treats the IRA as hers (a spousal rollover of an inherited IRA). Under the spousal rollover rules, she now treats the Roth IRA as if it were originally hers. (Not only does the IRS' Model Agreement clearly allow for spousal rollovers, it makes the spousal rollover the normal case.) As the owner of the IRA, she does not have to make any minimum distributions during her life. She can use this period from the original participant's death to her death as another period of additional tax-free growth. If she lives to age 90, then we have another 10 years of potential tax deferral tacked on to the original participant's.

Two Components of Tax Deferral

The extra deferral offered by a Roth IRA has two major components. The first is the post-70½ deferral period that generally lasts until the death of the second-to-die of the husband and wife. Any evaluation of the Roth IRA should rightfully focus on this deferral. Of course, this deferral ends at death. As such, it is not guaranteed and would not be achieved in cases of early death. The second component of tax deferral offered by the Roth IRA is the tax-free growth of the Roth IRA assets during the single life expectancy period of the beneficiary, often a child. For there to be significant advantage to this second component, it is important that income taxes due to the conversion be paid from other assets than those in the IRAs. (Even if conversion taxes are paid from an IRA, the first component of tax deferral will still make the Roth IRA conversion the better alternative in many cases.)

Tax-Free Growth May Continue After Death

The after-death tax-free growth component can be an important issue in a Roth IRA analysis. In some cases, this future tax-free growth arguably makes the Roth IRA more

valuable than the ordinary IRA even the day after you convert. For example, let's assume a death at age 50 with a child as the beneficiary who is 25 years younger. That 25-year old would have a life expectancy of 57.0 years. If he were not to withdraw the Roth IRA any faster than required, he would withdraw 1/56 of the balance when 26 years old, 1/55 of the balance when 27 years old, etc. During all that time, the IRA balance would grow tax-free and distributions would be tax-free to the child. If the funds had been left in an ordinary IRA, the same deferral period would still apply. However, all the growth would be taxable as distributions are made from an ordinary IRA. If both IRAs have the same starting balances, the value of the after-death growth in the Roth IRA will be much higher than in an ordinary IRA.

How can the ordinary IRA and Roth IRA have the same starting balance if conversion taxes must be paid? Clearly, if the conversion taxes reduce the value of the Roth IRA (either if paid directly from the Roth IRA or if some amounts are left in the ordinary IRA to pay the taxes) and income tax rates stay the same, there would be little difference due to the effect of the tax-free growth. Either way, the taxes would be equivalent. However, if the conversion taxes are paid from other assets, there can be a substantial difference. By paying the Roth conversion taxes from other assets, a larger balance is being left in the Roth IRA to grow tax-free. The value of this additional tax-free growth has no counterpart in an ordinary IRA. You have effectively grossed-up your IRA balance by changing the balance from a tax-deferred value to a tax-free value. The value of the additional tax-free growth this generates in the Roth IRA will generally substantially outweigh the opportunity costs. Opportunity costs refer to how the other assets would have grown if not used to pay the conversion tax. Such growth on those other assets would generally be taxable. By using other assets to pay the conversion taxes, you are essentially converting assets with taxable growth to assets with tax-free growth. Another potential deferral advantage from a Roth IRA is due to the four-year spreadout of additional taxable income when you do a conversion in 1998. However, that deferral may be offset in whole or part due to a higher income tax rate from being pushed into higher brackets during those four years. Then again, a conversion in a year after 1998 might result in still higher average tax rates and would not get a four-year spreadout.

Avoid Distributions as Long as Possible

Of course, all or part of the tax deferral is for naught if the IRA owner or his beneficiary needs to take out the money earlier. The key is when will distributions be needed? If distributions from the Roth IRA can be avoided for as long as possible, you and your beneficiaries will come out much further ahead. What a Roth IRA offers is additional decades of possible tax deferral beyond that offered by an ordinary IRA. Paying the conversion taxes from other assets also offers the ability to effectively convert taxable assets to nontaxable assets as well. Those benefits are what make the Roth IRA so powerful.

The Roth IRA, with its potential long period of tax-free growth and tax-free distributions may be thought of as the ultimate wealth accumulation device. It should be the last place from which you take distributions. Live on your taxable income and other assets. The

Roth IRA offers extra decades of tax-free growth followed by tax-free distributions.
There is no better tax shelter than the Roth IRA

Chapter 27

Useful Resources

Often, we are asked about books and publications that might be useful in the areas of pension and Roth IRA planning. We find the following sources particularly helpful.

Life and Death Planning for Retirement Benefits 4th edition, 2002.

By Natalie Choate.

\$89.95 plus \$7 shipping (add SC sales tax, if applicable).

Pensworth

415 Gallatin Circle

Irmo, SC 29229

1-800-694-7624

FAX (803) 781-7868.

Sy Goldberg's Planning Analysis: Working with the 2002 IRS Final Distribution Rules.

\$49 PDF file or \$59 printed copy.

Available at www.brentmark.com/sy.htm

The Pension Answer Book, 2003 edition

By Stephan J. Krass.

\$199 plus tax and shipping. Stock #14739.

Aspen Publishers

7201 McKinney Circle

Fredrick, MD 21704

1-800-638-8437

Roth IRA Book: An Investor's Guide

By Gobind Daryanani, Ph.D.

\$34.95 plus \$5 shipping (add SC sales tax, if applicable).

Pensworth

415 Gallatin Circle

Irmo, SC 29063

1-800-694-7624

FAX (803) 781-7868

For more useful information about these and other areas, visit the Brentmark Software website at www.brentmark.com, the Roth IRA website at www.rothira.com, or the Roth 401(k) website at www.roth401k.com. These websites are weighted heavily with pension and tax planning information.

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