///CASE**STUDY**

In this example, we look at the Roth conversion question for a hypothetical couple with a substantial estate that includes a sizable traditional IRA. They are nearing their IRS-defined retirement years, and their planning priority is to eventually pass their wealth efficiently to their two children (both in their early 30s). They are considering two questions: first, should they convert the traditional IRA to a Roth IRA, and second, should they pay the conversion tax from IRA assets or using assets outside of the account.

There is a cost to converting the Roth IRA, in the form of a conversion tax at ordinary income tax rates. But over time, the children who inherit the estate can receive meaningful benefit from the tax-free compound growth that takes place within the Roth IRA vehicle. In this hypothetical example, these benefits more than outweigh the cost of the conversion tax.

ASSUMPTIONS

Husband	Account owner, aged 60—assumed death at age 92 (in 2051).
Wife	Aged 56, assumed death at age 95 (in 2058).
Children	Aged 30 and 32, analysis extends to 2077, when children are 88 and 90 respectively.
Total Estimate	$50 million; includes a $3 million traditional IRA being reviewed for a potential Roth conversion.
Investment Growth Rate	6% annually for all assets.
Income Tax Rate	37% (for traditional IRA distributions and for conversion tax across various scenarios).
Spend Rate	For Gen 1 couple, 3% annual spend of non-IRA portfolio assets. For Gen 2 children, 5% of all assets once they inherit.
Other Assumptions	To account for reasonable portfolio activity, we assumed realized capital gains each year equal to 3% of the non-IRA portfolio, with a capital gains tax of 23.8%.

CHART 1: *This chart illustrates the AUM of the IRA account over time. We can see the impact of paying the conversion tax in 2019, but the meaningful change occurs in 2029, when the Gen 1 couple retires. With the traditional IRA they are forced to take RMDs each year thereafter, but in the Roth scenarios they can leave the IRA assets to grow tax-free throughout the rest of their lives. By 2077, the traditional IRA has been nearly exhausted, while the Roth IRA scenarios have grown substantially and have just begun their sunset periods where their assets must be distributed according to the children's life expectancies.*

End-of-Year Value, IRA Account (2019-2077)

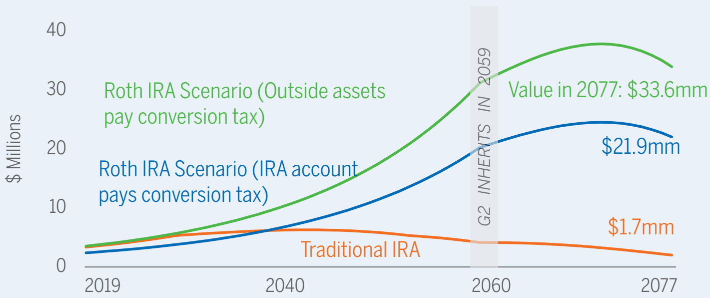


CHART 2: *This chart further demonstrates the value of the Roth conversion; upon the Gen 1 couple's passing in 2059, the after-tax estate drops below $80 million in the traditional IRA scenario, and grows only slightly to $93 million while supporting the children's spending. In the Roth scenarios, the estate's future value is considerably higher, with the Roth IRA becoming an increasingly large portion of the total estate as times go on. This chart also demonstrates that paying the conversion tax with outside assets is ultimately beneficial—a fairly straightforward conclusion, given that the math will always favor decisions that place more assets in a tax-exempt investment vehicle.*

End-of-Year Value, Total Estate (2019-2077)

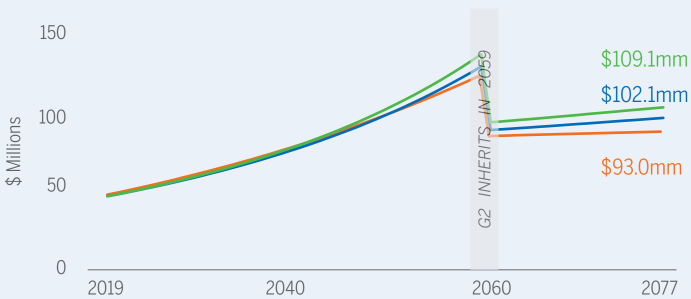
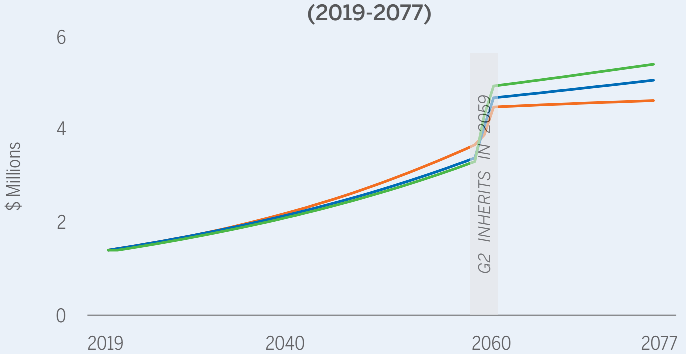


CHART 3: *Finally, this chart shows that not only does the Roth conversion result in higher future asset values, it also supports a higher level of spending for the Gen 2 children.*

Annual Family Spending Supported by Estate Assets (2019-2077)



SOURCE: Brown Advisory analysis. Please see the end of this presentation for important disclosures.