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CLIENT MEMORANDUM

November, 1998

Conversion of Traditional IRA to a Roth IRA

The purpose of this letter is to remind you of a new law, passed in 1997, which creates the type of IRA known as a "Roth IRA."

Traditional IRA

When you make a contribution to your traditional IRA, you receive a tax deduction for the contribution. And, when the monies are ultimately withdrawn from the IRA, both the principal and the accumulated income are taxed as ordinary income, at your then current tax rate. Upon reaching age 70½, you are required to commence withdrawals under certain rules, and pay income tax on the withdrawals. The gross value of the IRA remaining at the time of your death is included in your taxable estate for federal estate tax purposes, including the portion thereof which will ultimately be paid to the government in the form of income taxes. And, if you have already passed age 70½, depending on what payout election you have made, your beneficiaries may be required to pay income tax on your entire IRA within 1 year after your death.

Roth IRA

Under a Roth IRA you do not receive deductions for contributions to the Roth IRA. However, when the amounts are withdrawn, both the principal and the income are totally tax-free. Over the long term, the benefit of totally tax-free growth within the IRA is extremely significant.

It is possible to make a conversion of your traditional IRA to a Roth IRA. This presents a great planning opportunity!

A conversion involves your withdrawing monies from your current IRA and paying income tax thereon, and then contributing to the Roth IRA.

Following is a list of the advantages of converting to a Roth IRA:

1. There are no required minimum distributions during your lifetime from a Roth IRA. That is, rather than paying income tax on the IRA beginning at age 70½, you can allow the IRA to compound on a totally tax-free basis, for the remainder of your lifetime, and then the full amount would then pass free of any income taxes to your family. The potential benefit of allowing completely tax-free growth, for an estimated additional 15-20 years (on the average) is significant.

2. After you are not living, your beneficiaries could elect a payout over their lifetimes and thereby obtain the benefit of totally tax-free growth for an even more extended period of time. For example, if upon your death your beneficiary is age 45, then there is the availability of tax-free growth for potentially another 30 years. Taking this a step further, you might even name a grandchild as

beneficiary of any portion, potentially allowing for tax-free accumulation for a still longer period of time.

3. If you use your "other" monies to pay the income tax on the conversion, this can be "compared" to making an additional contribution to your IRA. (If the income taxes were to be paid from the IRA monies, then the net amount placed into the Roth IRA would be less, and the benefits are not as great.)

4. By prepaying the income tax which your beneficiaries would otherwise pay, your Estate Taxes would be reduced.

   Depending on your particular circumstances, the potential advantages to your family of making either a full or partial conversion to a Roth IRA, can be extremely significant. Your family could end up with twice as much net value by utilizing a Roth conversion

5. If your Estate is such that you would need to fund the By-pass Trust under your Will with an IRA, it would be much more advantageous to fund the By-pass Trust with a Roth IRA than with a traditional IRA (because with the traditional IRA the By-pass Trust would be reduced by the amount of income taxes on the IRA), thereby reducing your surviving spouse's estate taxes.

6. If the conversion is made during 1998, the income tax thereon can be paid in installments over 4 years (If the conversion is made later, the income tax is due by the next April 15).

7. Also, converting to a Roth IRA, can allow you to correct an otherwise irrevocable erroneous pay-out election which might have caused the full benefits to be subject to income taxes 1 year after your death.

There is one major qualification requirement. You do not qualify to convert to a Roth IRA if your "adjusted gross income" is greater than $100,000. If your income level is near that threshold, then it might be advisable to make the conversion in 1998, and then "reverse it" prior to filing your tax return in April, 1999, if it turns out that your income exceeds $100,000.

In summary, if you have a significant amount in your IRA, and especially if your estate will be subject to Federal Estate Taxes, my recommendation is that an analysis be made of the potential advantages of your converting all or any portion of your current IRA into a Roth IRA. The potential benefits to your family are quite dramatic. We can prepare projections, using various assumptions, which will illustrate the consequences over a period of years, of (i) retaining your traditional IRA, versus (ii) converting all or any part of your IRA to a Roth IRA. If you would like to make such an analysis, please give us a call.