

Jim Lange Featured in *Forbes* Magazine



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Long-distance planner: Jim Lange aims to ride his bike 40 miles a day in Tucson and to let his Roth IRA grow tax-free for decades.



The Best Retirement Plan and Estate Plans for Attorneys

Part One

by James Lange, CPA/Attorney

Plan for the Morning

IRAs and Retirement Plans

- **Getting It Right vs. Getting It Wrong**
- **Impact of the New Tax Law**
- **Best Accumulation Stage Strategies**
- **Tax-Savvy Spending after Retirement**

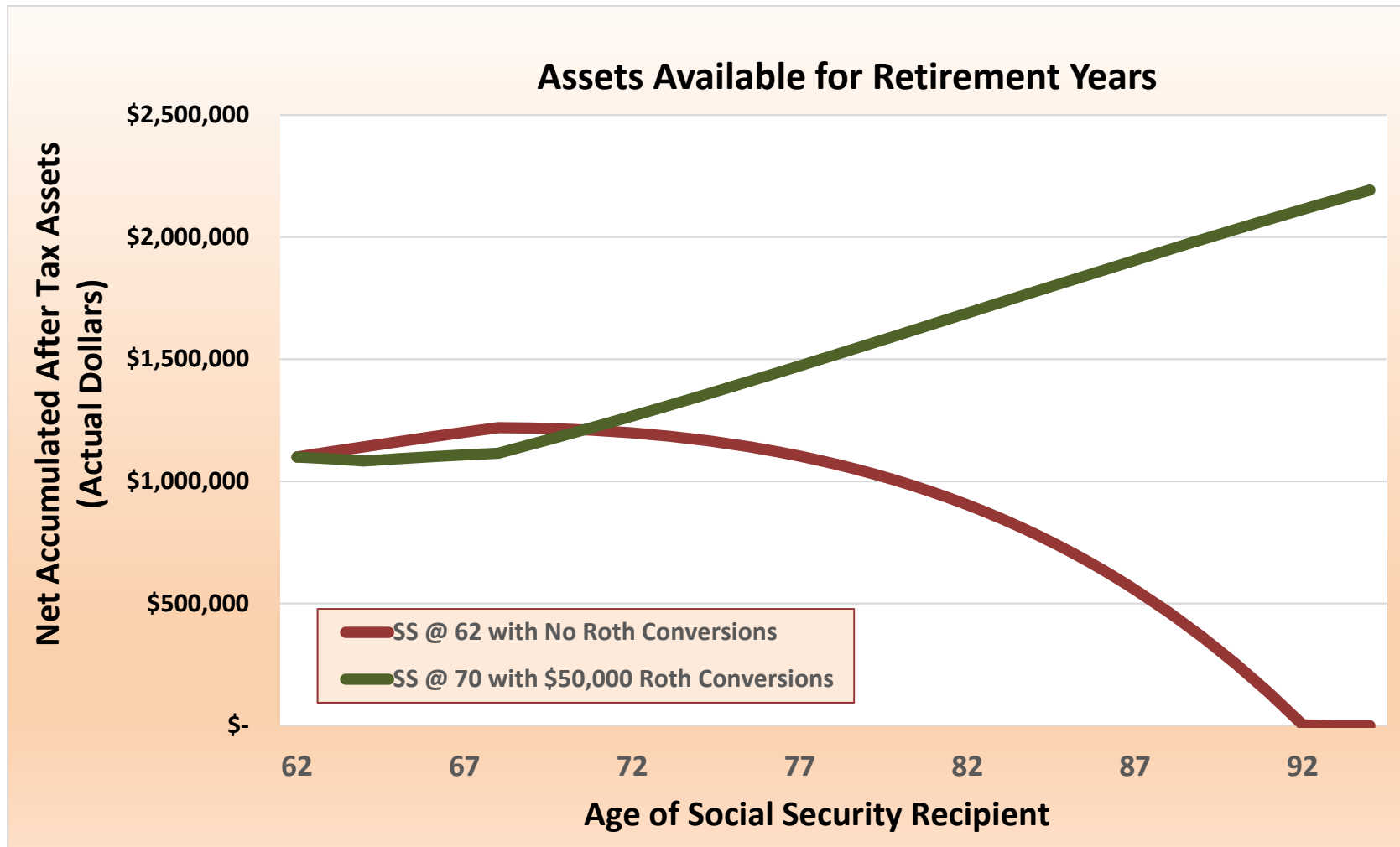
Plan for the Morning

- **Roth IRA Conversions**
- **Social Security Maximization Strategies**
- **Synergy between Delaying Social Security Benefits and Roth IRA Conversions**
- **Solution to Investor's Biggest Dilemma**
- **Indexing vs. Active Management**

Are You a Two Marshmallow Person?

- **Roth conversions and holding off on Social Security are fabulous for two marshmallow IRA owners**

Two Marshmallow Approach Wins by a Landslide



Assumptions:

Benefits of a Two Marshmallow Approach

- **Includes inflation rate of 3 ½%**
- **Breakeven at age 71**
- **By age 85, Roth Converters ahead by \$1.1 million**
- **By age 95, Roth Converters ahead by \$2.2 million**

Compare Tax Rates for 2017 and 2019

2017 Married Filing Jointly

\$ 0 – 18,650	10%
18,651 – 75,900	15%
75,901 – 153,100	25%
153,101 – 233,350	28%
233,351 – 416,700	33%
416,701 – 470,700	35%
470,701 and above	39.6%

2019 Married Filing Jointly

\$ 0 – 19,400	10%
19,401 – 78,950	12%
78,951 – 168,400	22%
168,401 – 321,450	24%
321,451 – 408,200	32%
408,201 – 612,350	35%
612,351 and above	37%

- **Make Roth Conversions at 24% Now**
- **Otherwise, You Might Pay 28% or 33% on RMDs later**

Are These New Rates Permanent?

- **The current law eliminates the individual tax cuts after 2025**
- **The nonpartisan Congressional Budget Office (CBO) estimates the Tax Cut and Jobs Act will add \$1.455 trillion to the deficit over 10 years**
- **The Democrats would love to undo these rates and likely will if they gain control**

What Should IRA and Retirement Plan Owners Do with Likely Tax Rate Increases?

- **Even with level income tax rates, Roth IRA conversions often, if not usually, make sense**
- **With likely tax rate increases, making Roth IRA conversions while tax rates are down could enrich your family for generations**

Nothing is Ever Easy

- **This sounds great, but what about you?**
- **We ran the numbers for someone I guessed was a good candidate, but.....**

Nothing is Ever Easy

- **Roth IRA Conversions often:**
 - **increase Medicare Part B premiums**
 - **make otherwise tax-free qualified distributions taxable or taxable at higher rates**
 - **increase tax on capital gains**
 - **might increase net investment income taxation**

First, Do No Harm

- **Roth IRA conversions mean you have to write a check to the government before you have to**
- **My Social Security strategies usually involve waiting longer than you have to collect**
- **I have an enormous burden to convince you that you should consider making a Roth IRA conversion and hold up collecting your Social Security**

This Is Not a Lawyerly Argument

- **You can argue assumptions but it comes down to math**
- **Lawyers like to argue, but I hope you are data driven and if the data shows a better approach, you will consider taking it**

Essence of Roth IRA Conversions

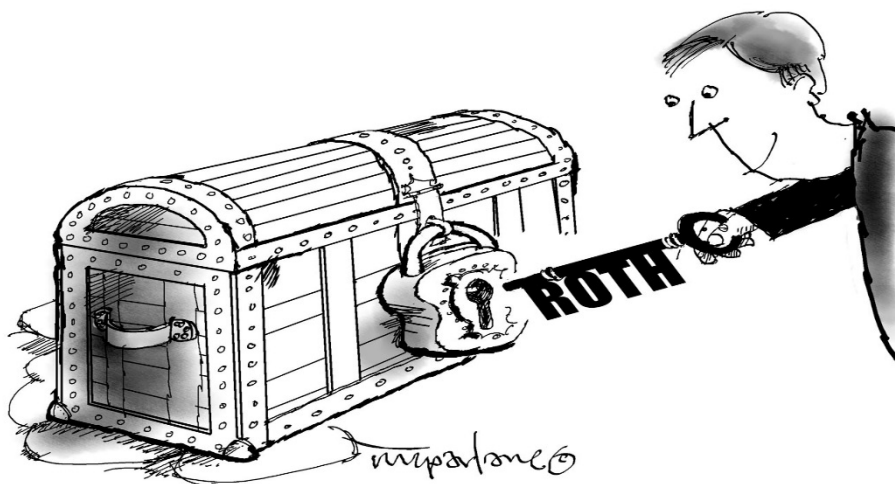
- **Transfers a tax-deferred traditional IRA or retirement plan to a tax-free Roth IRA**
- **Tax is paid on the conversion amount**
- **The resulting Roth IRA grows income tax-free**

RMDs for Roth IRA Conversions

- **No RMD for IRA owner**
- **No RMD for surviving spouse**
- **RMDs for non-spousal heirs, but tax-free distributions**

The SECRET

- The key to unlocking the Roth IRA treasure chest



The Key to Unlocking the Secret

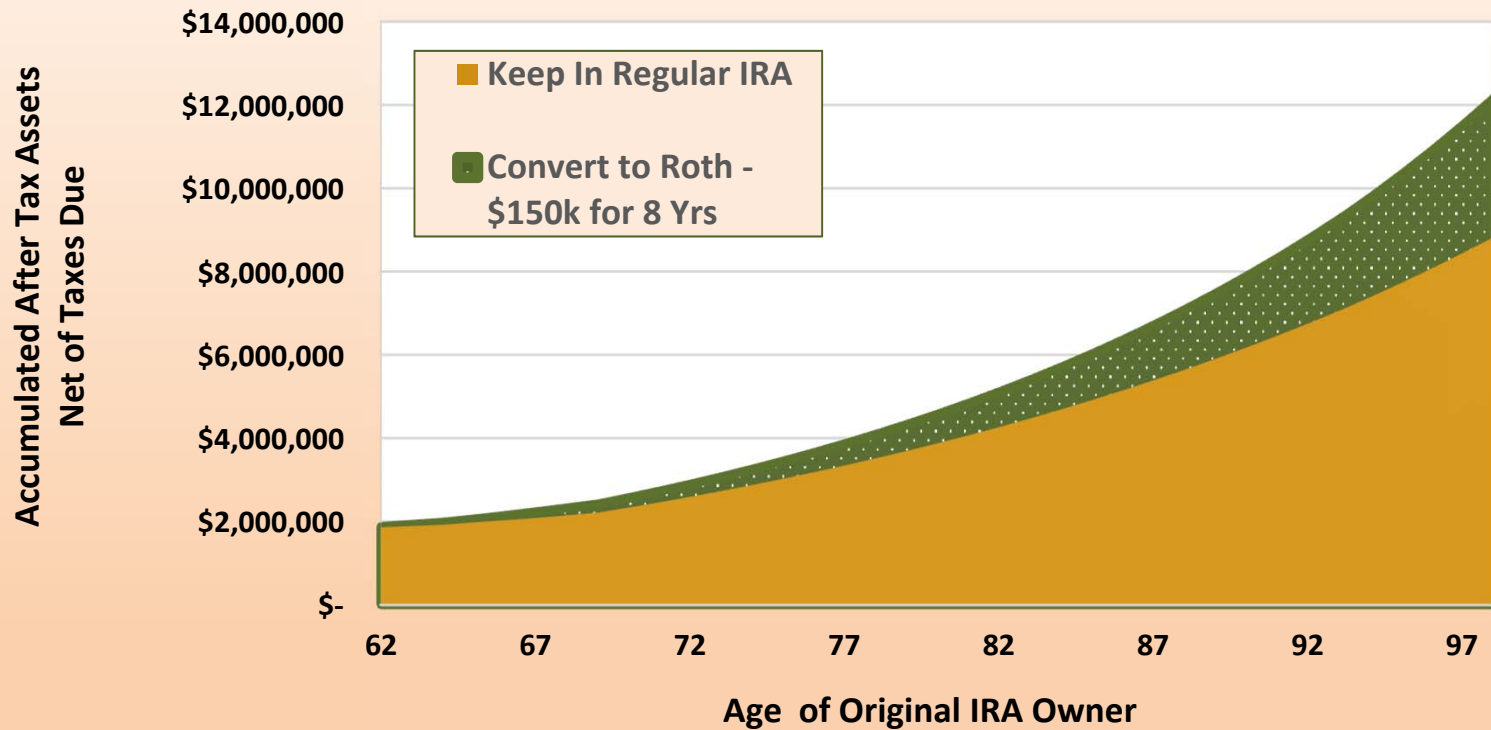
Roth Conversions—Day 1

Roth IRA Value after Conversion		\$100,000
Traditional IRA	\$100,000	
Other Non-IRA Funds*	<u>24,000</u>	<u>-0-</u>
Total Dollars	\$124,000	\$100,000
Less Taxes Paid on		
IRA (if distributed)	<u>(24,000)</u>	<u>-0-</u>
Purchasing Power	<u>\$100,000</u>	<u>\$100,000</u>

***(Non-IRA Funds of \$24,000 Used to Pay Tax On Conversion)**

Should You Convert?

\$1,114,883 Advantage at Age 85



Assumptions:

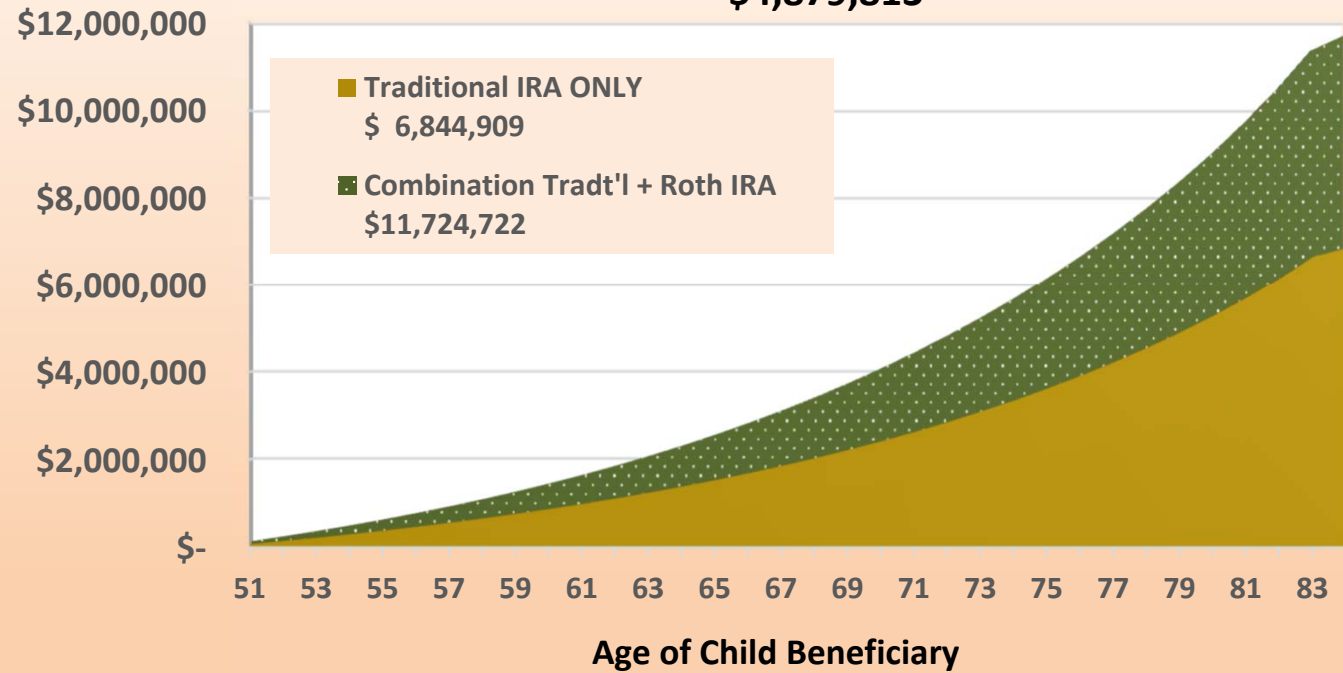
\$1.2 Million Total Conversions

- **62-year-old with \$1.5 million regular IRA and \$700,000 after-tax funds also available**
- **\$150,000 IRA conversions for 8 years**
- **24% tax bracket for Roth conversion amount & taxes on total regular IRA balances for comparisons**
- **28% federal tax bracket on minimum distributions from regular IRA – old rates after 2025**
- **6% rate of return on investments**
- **Takes only RMDs, reinvested in after-tax funds**
- **Traditional IRA reduced by tax due upon distribution**

Difference for Your Child if You Make Roth Conversions

\$4,879,813

Net Amount of Annual RMDs & After-Tax Distributions

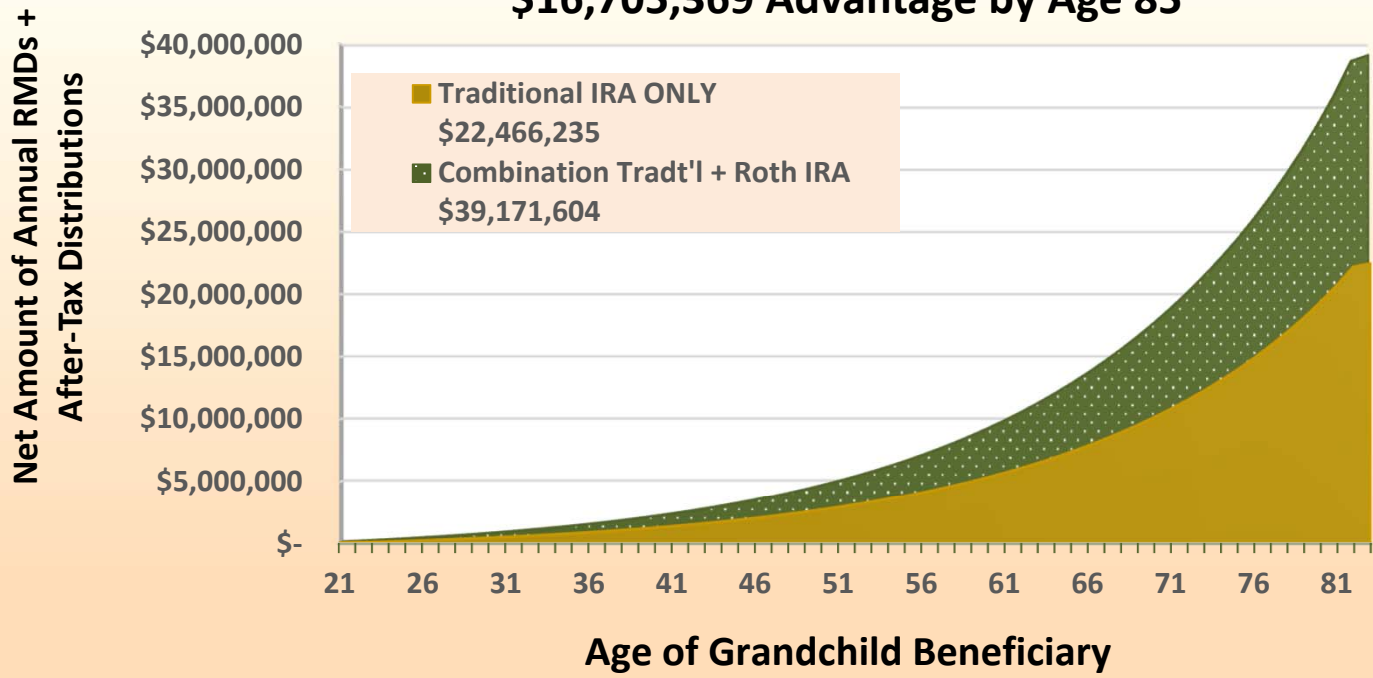


Assumptions:

Roth IRA Advantage to the Child Beneficiary

- IRA owner and spouse die at age 80
- Parents convert \$1.2 million over 8 years at current reduced tax rates
- Funds inherited by 50-year-old beneficiary:
 - Traditional IRA - \$2,840,538 + AT Assets \$171,807 or
 - Roth IRA \$2,818,253 + Traditional IRA \$1,076,622
- Inherited traditional IRA - RMDs reduced by 28% income tax paid on distributions
- Rate of return 6%
- Based on existing law with current rates expiring at end of 2025

**Difference for Your Grandchild if You
Make Roth Conversions
\$16,705,369 Advantage by Age 85**



Assumptions:

Roth IRA Advantage to the Grandchild Beneficiary

- **IRA owner and spouse die at age 80**
- **Grandparents convert a total of \$1.2 million at current reduced tax rates**
- **Funds inherited by 21-year-old beneficiary:**
 - **Traditional IRA \$2,840,538 + After-Tax Assets \$171,807 or**
 - **Roth IRA \$2,818,254 + Traditional IRA \$1,076,622**
- **Inherited traditional IRA - RMDs reduced by 28% income tax paid on distributions**
- **Rate of return 6%**
- **Based on existing law with current rates expiring at end of 2025**

Advantages in Today's Dollars (assume 3% annual inflation)

	<u>IRA Owner</u>	<u>Child of IRA Owner</u>	<u>Grandchild of IRA Owner</u>
Total Dollar Benefit Per Graph, Age 85	\$1,114,883	\$4,879,813	\$16,705,369
Measured in 2018 Dollars	\$ 564,902	\$1,413,817	\$ 2,476,891

Roth IRA Story

- **Reading Roth law proposal in 1997**
- **Can't understand why everyone isn't jumping up and down**
- **Asked American Institute of CPAs if I could reserve topic for a peer-reviewed article**
- **First peer-reviewed article on Roth IRA conversions**
- ***Won Article of the Year in 1998***

Roth IRA Story

- **Then, Congress eliminated the \$100,000 income limitation making the Roth IRA conversion open to a lot of wealthy IRA owners**
- **Wrote three editions of the best-selling book, *Retire Secure!***
 - **Still within the top four books on Roth IRA conversion on Amazon**
- **Wrote a dedicated Roth IRA conversion book, *The Roth Revolution: Pay Taxes Once and Never Again***

Radio Show: Roth Support

- I have had (at least to my knowledge) the top 15 IRA experts in the country on my radio show
- All of them are Roth IRA conversion advocates

Recent Publicity

- Article featuring Roth IRA conversions and my Roth story in *Forbes* magazine, February 28th edition
- Authored article regarding Roth IRAs on Forbes.com
- Article featuring Roth IRA conversions and my Roth story in *Pittsburgh Post-Gazette*
- TV appearance on an ABC affiliate

We Started “Running the Numbers”

- **After we developed models for Roth IRA conversion calculations, we started optimizing our clients’ individual planning**
- **This was before all the fancy software they have today. We used Excel.**

We Started “Running the Numbers”

- **We have “run the numbers” to develop a master plan for hundreds of clients**
- **We update the client’s plan every year**
- **Today, we use multiple specialized programs, but still often go back to Excel**
- **The skill of the person “running the numbers” is much more important than choice of software**

What Jim Lange Did With His Roth IRA Conversion

- I stand behind my own advice
- I put my family's money where my mouth is
- 1998 office destroyed by fire
- Lowest income in many years
- Made a \$239,000 Roth IRA conversion

What Jim Lange Did With His Roth IRA Conversion

- Don't be afraid to be aggressive with money invested in Roth IRA for the benefit of heirs
- If Jim's 1998 Roth conversion were invested in a DFA All Stock Index Fund, it would have grown from \$239,000 to \$1,291,829 by the end of 2018
- Rate of Return – 8.19%
- Over 3% more than S&P 500
- Anticipated increase over \$1.4 million above not making conversion by age 85

What Jim Lange Did With His Roth IRA Conversion

- Jim anticipates Roth IRA will be inherited by his daughter
- Roth IRA can handle the fluctuation of the market
- Estimated Roth account balances at age 85

Difference between No Roth and Roth at Various Conversion Rates	
DFA All Stock Index Fund - Rate of Return - 8.19%	\$ 1,420,732
Sample Rate of Return - 7.00%	\$ 721,339
Average S&P 500 Rate of Return - 5.83%	\$ 318,552

What Jim Lange Did With His Roth IRA Conversion

- Let's be realistic
- Must take inflation into consideration

Roth vs. No Roth	Benefit In	
	Benefit in Actual Dollars	Inflation Adjusted Dollars
Jim at age 85	\$ 1,473,803	\$ 666,620
Erica at age 85	\$ 18,254,104	\$ 3,687,302
Grandchild at age 85	\$ 413,039,300	\$ 28,094,109
8.19% Rate of Return, 3% Rate of Inflation		

You Are Never Too Old to Convert

- **Experts differ**
- **Alex Kindler quoted in Pittsburgh Post-Gazette disagrees with me**
- **Why I am right and he is wrong**

Death Bed Roth IRA Conversion Story

- **It is never too late for a Roth IRA conversion**
- **Heirs may be better off by hundreds of thousands**
- **Additional advantages of converting include:**
 - **Lower state inheritance taxes**

Old But Great Advice: Lower Taxes on the Conversion Produces Greater Benefits

- **Use the “window of opportunity” between retirement and age 70½ when RMDs start**
- **Delaying Social Security income widens the window**
- **Income manipulation to plan a year of low income to make a Roth conversion**
- **Have the right experts “run the numbers” and come up with a master plan**
- **Adjust every year**

New Advice: Lower Taxes on the Conversion Produces Greater Benefits

- **Consider conversions even if your income is level because your tax rate is low now and will likely go up later**
- **Develop a master plan**
- **Adjust the master plan every year**

Typical Roth IRA Conversion Advice

- **Make a series of Roth IRA conversions over a period of years to keep the tax bracket down**
- **Not as much sticker shock on the conversion tax**

Roth Conversion Without an IRA

- **You can make a Roth 401(k) conversion if your company has a Roth component to their 401(k)**

Potential Pitfalls and Disadvantages of Roth IRA Conversions

- **The Roth IRA declines after the conversion**
- **With a high market, that is a possibility**
- **I am not saying the market is high, I don't know**
- **Re-characterization is out**