Steps of the IRA vs. Roth Analysis

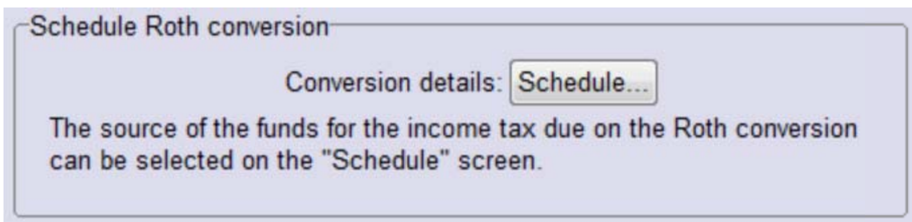
Note: These directions assume a basic working knowledge of Wealthy and Wise®.

The comprehensive retirement analysis with the Roth conversion technique discussed in Blog #121 is powerful. There are three steps to the Wealthy and Wise calculations.

Step 1 (Wealthy and Wise -- Scenario 1): Enter all aspects of net worth in Scenario 1 including entering current IRA values on the Defined Contribution tab located under Retirement Plan Assets. (The Roth surfaces in Step 2.) Determine whether a client's current and expected assets can sustain the desired amount of after tax retirement cash flow in all years of retirement by selecting the most efficient order of accessing those assets[1].

In the event of any excess cash flow in any year, be sure to make the appropriate reinvestment selections on the Reinvestment of Assets tab located under Illustration Details.

Step 2 (Wealthy and Wise -- Scenario 2): Copy Scenario 1 to Scenario 2. Using the Roth Defined Contribution tab located under Retirement Plan Assets, select the prompt to convert an existing Defined Contribution plan to a Roth. Then, use the following prompt to structure the conversion:



Step 3 (Wealthy and Wise -- Comparison 1): Compare Scenario 1 and Scenario 2 in the Comparison section on the lower half of the Workbook main window.

[1] In the event a client's current and expected assets cannot sustain the desired amount of after tax retirement cash flow in all years of retirement, you need to adjust your analysis. Below are several courses of action to consider. (Step 2 above may allow you to meet the original cash flow goals.)

- Reduce the overall cash flow requirements;
- Defer the starting date of the cash flow requirements;
- Manage liquid assets for more aggressive yield;
- Transfer a portion of conservatively invested liquid assets into more aggressive investments;
- Liquidate all (or a portion) of any illiquid assets now and transfer the funds to liquid assets;
- Liquidate all (or a portion) of any illiquid assets in the first year that the shortfall occurs[2] and transfer the funds to specific liquid assets.

[2] You can determine the year a shortfall first occurs in the report entitled **Analysis of After Tax Cash Flow Requirements**.