

# Retirement Unknown: How to enhance tax control in retirement

“Nothing is certain but **death** and **taxes**.”

- Benjamin Franklin

Taxes and change are inevitable. A fixed index annuity can be a powerful retirement vehicle for managing the impact taxes have on your portfolio.

## Two Strategies for Maximizing Tax Efficiency

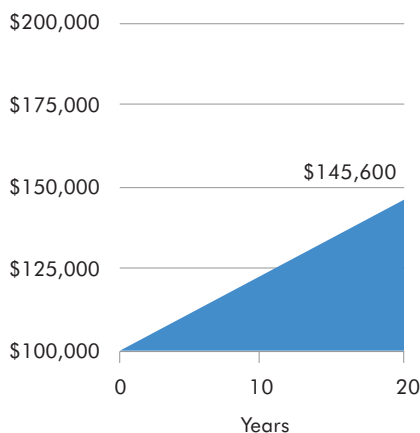
### 1: Tax Deferral

Non-qualified funds held outside of an IRA or employer sponsored retirement account that are not needed for current spending, like a 401K, may generate taxable income that could be deferred until the funds are needed. Money placed in a fixed index annuity has the opportunity for tax-deferred growth potential.

### Three levels of compounding interest

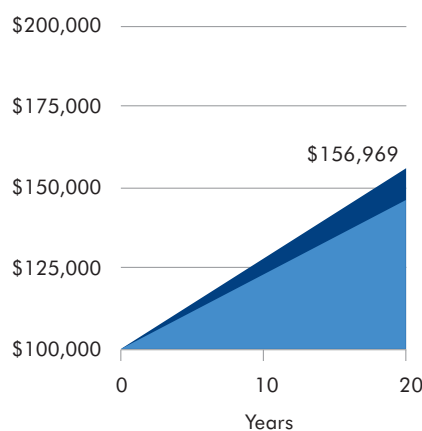
#### 1 Interest on principal

An initial premium of \$100,000, with no additional contributions made, earns interest over time.



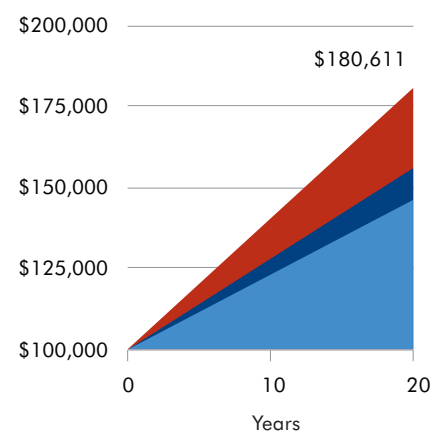
#### 2 Interest on interest

As long as the interest earned on the principal is not withdrawn, it will earn additional interest known as compound interest.



#### 3 Interest on taxes saved

Interest on taxes saved for a 25% tax bracket over seven years, with 3% annual growth, provides another layer of compound interest that allows all of the money in the annuity to work harder for the contract owner.



Charts are hypothetical examples used for demonstrative purposes only. \*Assumes contract is individually owned.

Source: <https://constitutioncenter.org/blog/benjamin-franklins-last-great-quote-and-the-constitution>

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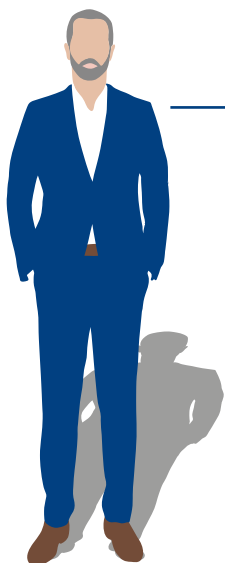
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## 2: Partial Roth Conversions

American Equity's fixed index annuity products can be used for full or partial Roth IRA conversion. This can be a powerful tool for creating tax diversification in a retirement income portfolio as well as a nontaxable retirement income distribution stream.

### Partial Roth Conversion: Step by Step

**Step 1:** Client meets with financial planner and tax professional.

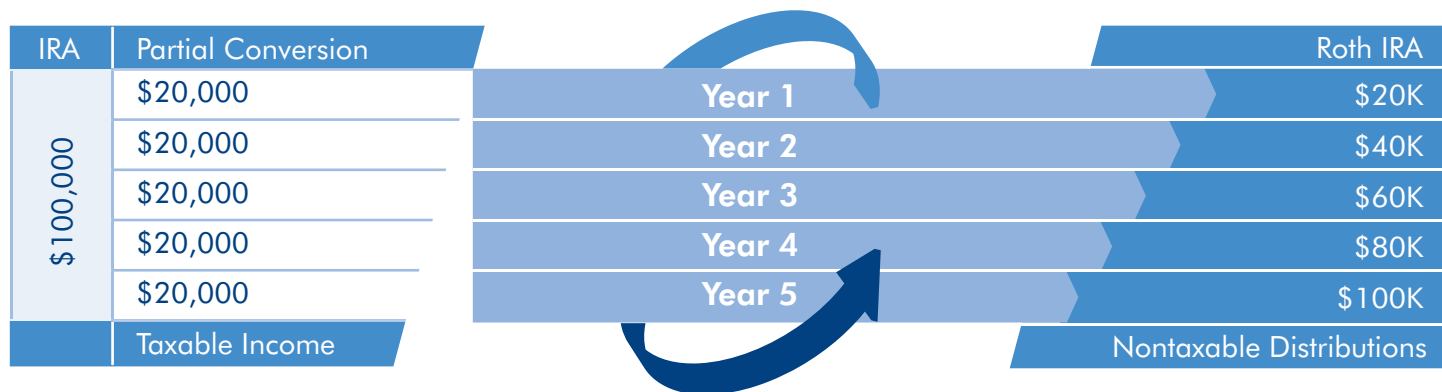


Name: Andrew Age: 60	Demographic	White collar. Plans to retire next five years. Married with two adult children.
	Tax bracket	\$172,751 to \$329,850
	Tax rate	24%
	Priorities	Lower taxable income for the long-term, secure nontaxable distributions for retirement, provide nontaxable income to beneficiaries

**Step 2:** Decides Roth conversions can help meet priorities and goals. Begins converting \$20,000 of \$100,000 IRA every year for five years.

**Step 3:** Every year, receives a 1099-R in January showing the distribution, and then receives a 5498 mid-year showing the distribution was converted to a Roth.

Hypothetical example used for illustrative purposes only.



Graph assumes taxes are paid from an outside account.

## Key Considerations

- Roth Conversions (Full or Partial) create a taxable event.
- Tax forms 1099-R and 5498 reporting the transaction for the tax year of the conversion are distributed in the year following the conversion.
- Pursuant to the Tax Cuts and Jobs Act, effective January 1, 2018, a conversion from a traditional IRA, SEP, or SIMPLE can NOT be re-characterized.
- If income taxes are requested as part of the conversion, they will be included in the taxable portion; if the taxpayer is under age 59½, the taxes withheld will generally be subject to the 10% early distribution penalty.
- Required Minimum Distributions (RMDs) cannot be converted to a Roth IRA.
- Qualified distributions from a Roth IRA are not included in taxable income.
- Generally, conditions that need to be met to be considered a qualified distribution are: **(1)** made to taxpayers past the age of 59½; and **(2)** the distribution must be after the fifth-tax-year beginning with the first tax year for which a contribution was made to a Roth IRA set-up for the taxpayer. i.e. It does not start over with each conversion.



### Simple Next Step

With American Equity, the process for starting a partial Roth conversion is simple. You and your client complete the Roth IRA Conversion Form for an existing IRA. This is available on the American Equity forms website.

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## How to enhance tax control in retirement

Withdrawal charges may apply to an annuity. Interest earnings in an annuity are not taxed until withdrawn. Annuity withdrawals and distributions may be subject to income tax and, if withdrawals or distributions are taken prior to age 59½, a 10% federal penalty tax may apply.

Guarantees are based on the financial strength and claims paying ability of American Equity and are not guaranteed by any bank or insured by the FDIC.

Under current tax law, the Internal Revenue Code already provides tax deferral to qualified money, so there is no additional tax benefit obtained by funding a qualified contract, such as an IRA, with an annuity; consider the other benefits provided by an annuity, such as lifetime income and a Death Benefit. Indexed annuities are not stock market investments and do not directly participate in any stock or equity investments. Market indices may not include dividends paid on the underlying stocks, and therefore may not reflect the total return of the underlying stocks; neither an index nor any market-indexed annuity is comparable to a direct investment in the equity markets.

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