

# Partial Roth Conversions

EXPLORING THE BENEFITS



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**AMERICAN EQUITY**  
INVESTMENT LIFE INSURANCE COMPANY®

# Basic Benefits of Partial Roth Conversion



## Key Benefits

- Gain more control over when you pay taxes
- Secure a nontaxable retirement income source
- Manage future Required Minimum Distribution payments
- Optimize legacy distribution payouts to beneficiaries

## Basics

Partial Roth conversions can be a powerful tool to create tax diversification in your retirement income portfolio or the inheritance you leave to your heirs. Careful planning with pretax funds in the right tax environment can allow you to pay less in taxes over time. In general, there are two ways an individual can fund a Roth IRA:

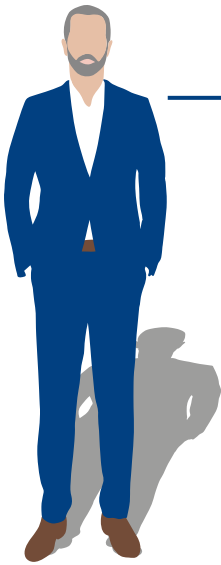
1. Personal contributions up to the annual limit; and/or
2. Roth Conversion from Traditional IRA, SEP or SIMPLE IRA.

## 5 Tax Differences Between a Roth IRA and Traditional IRA

|                              | Roth IRA   | Traditional IRA   |
|------------------------------|--|---|
| Contract growth              | Nontaxable   | Tax-Deferred  |
| Legacy distributions         | Nontaxable income for beneficiaries  | Beneficiaries pay income tax on inherited IRA   |
| Funds withdrawn              | Qualified distributions are a nontaxable withdrawal  | Subject to income tax   |
| Withdrawals prior to age 59½ | Contributions are considered to be distributed first, followed by conversions and then earnings which may be subject to a 10% early distribution penalty | Generally, withdrawals are taxable and may be subject to a 10% early distribution penalty             |
| Contributions                | Not deductible; no age restriction; can be limited by compensation and modified adjusted gross income  | Tax-deductible; no age restriction; can be limited by compensation and modified adjusted gross income |

Using full and partial Roth conversions may allow an individual to take advantage of a favorable tax bracket. This strategy may lower an individual's taxable income and limit exposure to higher tax rates over their retirement years.

Additionally, Roth IRAs are not subject to Required Minimum Distributions. This can also decrease future tax liabilities in retirement or help maintain a higher nontaxable account value to pass along to an individual's heirs.



## Partial Roth Conversion: Step by Step

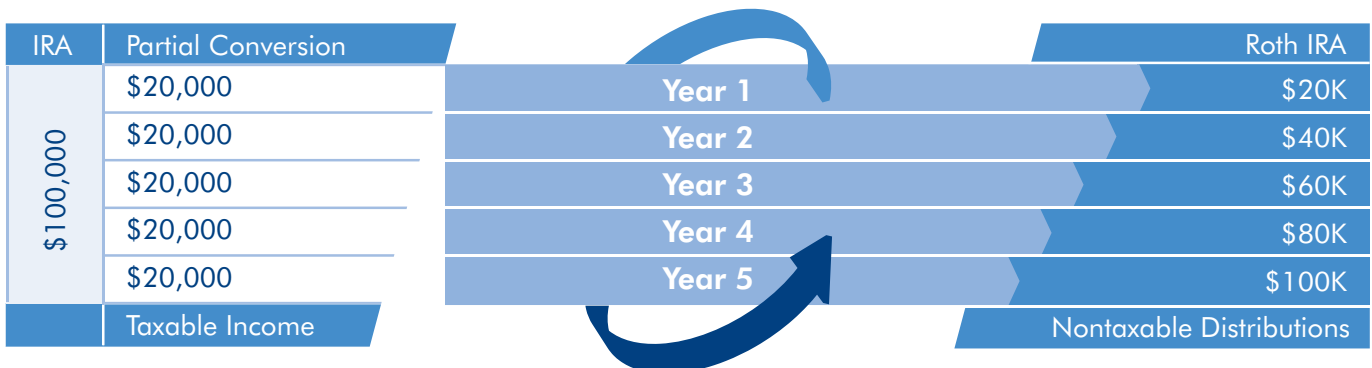
**Step 1:** Client meets with financial planner and tax professional.

|                         |              |  |
|-------------------------|--------------|--|
| Name: Andrew<br>Age: 60 | Demographic  | White collar. Plans to retire in the next five years. Married with two adult children.   |
|                         | Tax bracket* | \$ 178,151 to \$340,100  |
|                         | Tax rate*    | 24%  |
|                         | Priorities   | Lower taxable income for the long-term, secure nontaxable distributions for retirement, provide nontaxable income to beneficiaries |

\*2022 rates

**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.



Graph assumes taxes are paid from an outside account.

### Key Considerations

- Roth Conversions (full or partial) will create a taxable event.
- Tax forms 1099-R and 5498 will be distributed in the calendar year following a Roth conversion.
- Qualified distributions from a Roth IRA are not included in taxable income. A qualified distribution must meet both of these requirements: (1) made after the 5-year period beginning with the first tax year for which a contribution was made to a Roth IRA; and (2) made on or after the owner reaches age 59 ½.
- Potential limitations could apply on Roth conversions if Lifetime Income Benefit (LIB) payments have been started on same contract, including: no partial Roth conversions available after LIB payments begin, only full Roth conversions.
- A Roth conversion can no longer be recharacterized. (i.e. it cannot be undone once the conversion is complete).
- If pre-age 59½, withholding taxes during an IRA to Roth conversion may create taxable income and incur a 10% early distribution penalty.
- Required Minimum Distributions (RMDs) cannot be converted to a Roth IRA.



### 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.

# American Equity

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### **Service**

Our contract owners are why we are here, and we do our best to provide service, second to none, every day.

### **Integrity**

Our values of honesty, fairness and truthfulness have been central to our past success and will continue to be for generations to come.

### **Excellence**

Our dedication to going above and beyond in every facet of our business has established us as a top-tier fixed index annuity provider.

### **Protection**

Our products provide assurance for contract owners so that they can trust their principal is protected and their income is guaranteed for life.

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