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Partial Roth Conversion

Consider a strategy to help take advantage of a favorable tax bracket.

For many people, retirement savings have been built from pre-tax dollars with the expectation that withdrawals will be taxed at a lower rate. But while taxes are a certainty, the answer to "how to plan for them" is not one-size-fits-all.

As with any tax decision, talking with your tax professional is the best place to start. Questions to think through before your conversation include:

1. How concerned are you about income taxes when you retire?
2. How have you planned for taxation of funds you want to leave to heirs?
3. Will taking required minimum distributions trigger a higher tax bracket?
4. Will your current deductions still apply at retirement, or do you need to prepare for a higher tax rate?
5. How might you be affected when the Tax Cuts and Jobs Act (TCJA) sunsets in 2025?

In some situations, converting pre-tax savings to a Roth IRA may make sense. Because the amount converted in a tax year is recognized as income with taxes due on that amount, a preferred strategy is to convert part of your savings each year. A partial conversion can help assure that you don't get pushed into a higher tax bracket.

This material is provided by Athene Annuity and Life Company (61689) headquartered in West Des Moines, Iowa, which issues annuities in 49 states (excluding NY) and in D.C., and Athene Annuity & Life Assurance Company of New York (68039) headquartered in Pearl River, New York, which issues annuities in New York.

Benefits of a partial Roth conversion

Depending on your needs, a partial Roth conversion may be worth considering. For many entering a phase of income planning, this flexible option may also provide other benefits:

- **Tax-free growth potential**
- **Qualified distributions are income-tax-free[1]**
- **No required minimum distributions (RMDs)[2]**
- **No income eligibility limits**
- **Legacy distributions are income-tax-free[3]**

How does a partial Roth conversion work?

Consider this hypothetical example.

Meet Shandra and Anthony

- Married for 37 years, both now age 66
- Own a $250,000 IRA
- 22% tax rate (Married, filing jointly, 2022 bracket = $83,551 to $178,150)
- Concerned about future tax rates when the Tax Cuts and Jobs Act (TCJA) sunsets in 2025 and RMDs begin shortly after
- Want to secure nontaxable distributions for retirement, lower taxable income over the long-term, and provide nontaxable income to beneficiaries

Strategy

Convert $50,000 of the $250,000 IRA each year for five years. This allows them to systematically decrease their pre-tax IRA and increase their Roth IRA. Also, by doing partial conversions they are able to maintain their current tax rate.

Year	IRA	Partial Conversion[4]	Roth IRA
0	$250,000	-	-
1	$200,000	$50,000	$50,000
2	$150,000	$50,000	$100,000
3	$100,000	$50,000	$150,000
4	$50,000	$50,000	$200,000
5	$0	$50,000	$250,000

$250,000

Total Amount is tax-free and any gains during subsequent years are tax-free.

Hypothetical example assumes taxes are paid from another account.

Additional considerations

Where will you live in retirement? Some states partially, or totally, exclude retirement income (including IRA distributions) from state income tax – which could lessen the importance of conversion.

When will you need your funds? Generally, if you are under age 59 ½ and you'll need the funds within the next five years, a Roth IRA is not a good choice. This is because a five-year waiting period is required before you can distribute the converted amount without owing the 10% additional tax.

Each conversion starts its own 5-year period.
The 5-year period begins on January 1 and applies to each annual conversion until you reach age 59 1/2. The conversion period may also be different than the 5-year period used for determining whether the distribution is a qualified distribution.

Will the Roth conversion affect your Medicare surtax? Married couples filing jointly with a modified adjusted gross income (MAGI) of more than $250,000 may be subject to a 3.8% Medicare surtax. Be aware that income from a conversion may put you over the MAGI limit, consequently affecting whether the tax advantage was beneficial.

Are you really ready? A partial Roth IRA conversion is a taxable event. Once you convert, it cannot be undone.[5]

Need help making a decision?
Work with your tax and financial professionals to see if a partial Roth conversion makes sense for your personal circumstance. If it does, work with them to determine the annual amount and overall time frame for conversion.

Taking steps today may help reduce total tax liability for you … and for your heirs. Consider how a partial Roth conversion can help you get control of what you pay, potentially saving you thousands in future tax bills.

[1] A "qualified distribution" is any distribution made after the 5-year tax period and one of the following apply: On or after age 59 ½, disability or made to the beneficiary or to the estate after death. First-home purchase with restrictions.

A distribution that would otherwise meet the requirements of a "qualified distribution" will not be treated as a qualified distribution if such payment or distribution is made within the 5-taxable year period beginning with the first taxable year for which the Roth conversion contribution was made.

[2] While there are no required RMDs during the Roth IRA owner's life, non-spouse beneficiaries inheriting Roth IRAs are subject to RMDs.

[3] Distributions to beneficiaries are income-tax-free if the conversion occurred 5 years prior to death.

[4] The actuarial present value of additional death and/or living benefits are considered, if applicable, in determining the fair market value (FMV) of annuity Roth IRA conversions within the same contract. The FMV is the contract value plus the present value of the additional benefits and is determined as of the date of the conversion. This is the amount that is reported on IRS Form 1099-R for the conversion.

[5] As of January 1, 2018, Roth conversions cannot be undone by a recharacterization.

Required Minimum Distribution as defined by Internal Revenue Code Section 401(a)(9).

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Athene Annuity and Life Company
7700 Mills Civic Parkway
West Des Moines, IA 50266-3862

Athene.com

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