

# Using fixed index annuities with Roth IRA conversions

An executive summary from the Allianz Advanced Strategies and Planning Platforms team.

If a Roth conversion makes sense for your clients' financial and income-tax strategy, it's possible they could realize additional benefits by also using a fixed index annuity (FIA) from Allianz Life Insurance Company of North America (Allianz).

Ever since company pensions began disappearing in the 1980s, traditional IRAs have become increasingly popular retirement-savings vehicles. (Estimated assets in IRAs totaled \$14.3 trillion at the end of Q1 2024.<sup>1</sup>) And since the creation of Roth IRAs in 1998, Americans have had a new option.

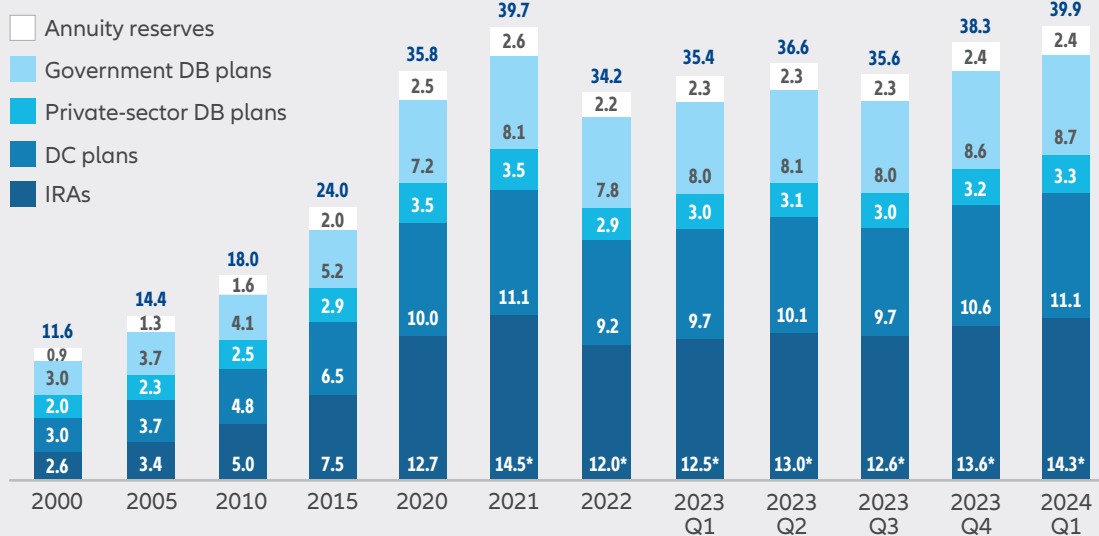
Strategically executing partial Roth conversions can help your clients spread out their tax burden over time.

This strategy can help manage the taxes they pay on eligible traditional IRA funds and – in the end – help them keep more of their money for their retirement.

**But there's one additional strategy your clients may not be aware of:** Using a fixed index annuity (FIA) in conjunction with a Roth conversion – if appropriate for your clients' financial situation – offers the traditional benefits of an FIA **plus** additional benefits, such as federal-income-tax-free lifetime withdrawals for retirement income or income-tax-free death benefits for beneficiaries.

## U.S. total retirement market assets

Trillions of dollars, end-of-period, selected periods



\* Data are estimated.

Components may not add to the total because of rounding. Sources: Investment Company Institute, Federal Reserve Board, Department of Labor, National Association of Government Defined Contribution Administrators, American Council of Life Insurers, and Internal Revenue Service Statistics of Income Division

<sup>1</sup>Investment Company Institute, June 13, 2024.

Product and feature availability may vary by state and broker/dealer.

## Traditional IRA vs Roth IRA

But first, let's outline the differences between a traditional IRA and a Roth IRA.

**Traditional IRAs** are usually funded with before-tax dollars and are generally fully taxable when your clients make a withdrawal. The owner of a traditional IRA must also take required minimum distributions (RMDs) beginning at age 73. And if withdrawals are taken before age 59½, they may be subject to a 10% federal additional tax.

**Roth IRAs**, on the other hand, are funded only with after-tax dollars. Distributions after age 59½ are completely income-tax-free as long as the Roth IRA owner has met a five-year requirement, determined by the date they first funded any Roth IRA. No required minimum distributions apply during the owner's lifetime, but certain RMD rules do apply to Roth IRA beneficiaries.

|                              | Traditional IRA                | Roth IRA        |
|------------------------------|--------------------------------|-----------------|
| <b>Contributions</b>         | Pre-tax                        | Post-tax        |
| <b>Withdrawals after 59½</b> | Taxed                          | Not taxed       |
| <b>RMDs</b>                  | Yes                            | No              |
| <b>Death benefit</b>         | Beneficiaries pay income taxes | No income taxes |

## Converting traditional IRA dollars into Roth IRA dollars

Given the favorable tax treatment of Roth IRAs, your clients may wonder if it makes sense to convert some of their traditional IRA assets into a Roth IRA. There are two tax perspectives they need to consider to help answer this question:

- Their future income-tax situation without a Roth conversion
- Today's income-tax situation with a Roth conversion

**Next, consider this: Does your client believe they will be in a higher tax bracket in the future?**

If the answer is yes – and if you and your client (with the help of their qualified tax advisor) agree that converting to a Roth IRA makes sense – there may be one more question: **How will your client pay for the increase in federal income taxes: all at once – or partially, over time?**

This is an important question because converting a traditional IRA to a Roth IRA is a taxable event. "All at once" results in your client having to pay all of the federal income taxes due in the year the conversion is completed.

Instead, your clients might consider a partial conversion strategy – in other words, converting only a portion of their traditional IRA to a Roth each year. Spreading out the conversions over time helps spread out the tax burden. And strategically determining the amount to convert each year can also help prevent your clients from being elevated into the next-higher tax bracket.

Regardless of how your clients convert their assets to a Roth IRA, once they are properly converted, all distributions are federal-income-tax-free.<sup>1</sup>

At the end of calendar year 2025, nearly all provisions of the 2017 tax act are scheduled to expire. This is a foreseeable increase in the tax brackets, unless Congress acts to change it.

<sup>1</sup>Converting an employer plan account or traditional IRA to a Roth IRA is a taxable event. Increased taxable income from the Roth IRA conversion may have several consequences including (but not limited to) a need for additional tax withholding or estimated tax payments, the loss of certain tax deductions and credits, and higher taxes on Social Security benefits and higher Medicare premiums.

It is generally preferable that clients have funds to pay the taxes due upon conversion from funds outside of their IRA. If they elect to take a distribution from their IRA to pay the conversion taxes, please keep in mind the potential consequences, such as an assessment of product surrender charges or additional IRS penalties for premature distributions.

Please note that in order to provide a recommendation to a client about the liquidation of a securities product, including those within an IRA, 401(k), or other retirement plan, to a fixed or variable annuity or for other similar purposes, you must hold the proper securities registration and be currently affiliated with a broker/dealer or registered investment adviser. If you are unsure whether or not the information you are providing to a client represents general guidance or a specific recommendation to liquidate a security, please contact the individual state securities department in the states in which you conduct business.

## Consider an Allianz® FIA for your clients' Roth IRA conversions

If you determine that a fixed index annuity (FIA) would be a good fit in a client's overall retirement portfolio, an Allianz® FIA may be a good choice for their Roth IRA conversions.

Most importantly, Allianz is one of only a few FIA companies that allows partial internal Roth IRA conversions.

Second, in addition to the traditional benefits of an FIA – such as principal protection from market downturns, tax-deferred growth potential, indexed interest accumulation opportunities, and a death benefit for beneficiaries during the accumulation phase – select Allianz® FIAs also offer

premium and interest bonuses credited to the contract's income value.<sup>1</sup> This can help give your clients more accumulation opportunity over time.

And when it comes to guaranteed lifetime withdrawals, select Allianz® FIAs also give your clients the opportunity to receive increasing income each year their contract is credited with indexed interest through built-in or automatically included income benefit riders for an additional cost. What's more, the lifetime withdrawals are federal-income-tax-free when distributed from a properly converted Roth IRA – even if the lifetime withdrawal amounts increase over time.

### HERE'S A HYPOTHETICAL EXAMPLE:

#### Case study assumptions

- 60-year-old, married filing jointly
- \$100,000 in traditional IRA with an Allianz® FIA
- Current tax rate: 22%
- Projected current year joint taxable income: \$150,000
- Additional income before next tax bracket: \$51,050
- Conversion years: 4
- Taxes to be paid: \$22,000

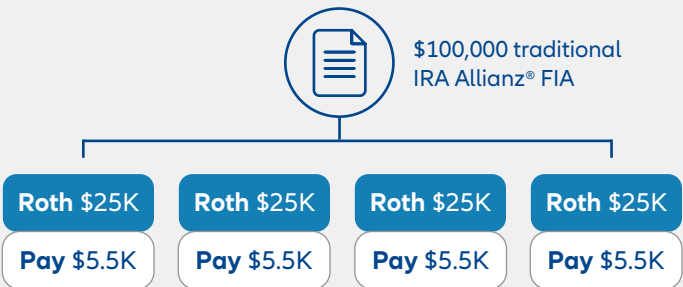
In this hypothetical example, our fictional client decides to request a partial internal Roth IRA conversion of \$25,000 from their traditional IRA each year for four years, spreading out the \$22,000 in taxes owed over four years (\$5,500 per year). This allows them to remain in the 22% tax bracket,<sup>2</sup> even assuming modest income increases. The new Roth IRA FIA contracts will be identical to the original traditional IRA contract, including any features and benefits the original contract offered.

The initial traditional IRA contract has been dispersed into four Roth IRA FIA contracts that the client can use for future retirement needs. This gives the client more flexibility in taking withdrawals as needed – without having to manage required minimum distributions (RMDs) every year. Also, remember that distributions from the Roth IRA will be federal-income-tax-free and can also be passed on to beneficiaries income-tax-free.

#### 2024 tax summary

##### Federal income tax rates

| Taxable income between: |     |                                      |            |
|-------------------------|-----|--------------------------------------|------------|
| Single <sup>1</sup>     |     | Married, filing jointly <sup>1</sup> |            |
| \$0-\$11,600            | 10% | \$0-\$23,200                         | 10%        |
| \$11,600-\$47,150       | 12% | \$23,200-\$94,300                    | 12%        |
| \$47,150-\$100,525      | 22% | <b>\$94,300-\$201,050</b>            | <b>22%</b> |
| \$100,525-\$191,950     | 24% | \$201,050-\$383,900                  | 24%        |
| \$191,950-\$243,725     | 32% | \$383,900-\$487,450                  | 32%        |
| \$243,725-\$609,350     | 35% | \$487,450-731,200                    | 35%        |
| Over \$609,350          | 37% | Over \$731,200                       | 37%        |



<sup>1</sup> Bonused products may include higher surrender charges, longer surrender periods, lower caps, lower participation rates, higher spreads, or other restrictions that are not included in similar products that don't offer a bonus. The index allocations that offer the interest bonus will generally have lower caps and participation rates. Not all bonuses guarantee that a policy will be credited with an interest bonus every year as some are based on the growth of an index. Full or partial internal Roth IRA conversions are not allowed once lifetime withdrawals have begun.

<sup>2</sup> The taxable conversion amount may be based on an amount that is greater than the contract value. Multiple partial internal Roth IRA conversions will result in your client receiving multiple contracts.

## Conclusion

If you and your clients believe that their federal income tax rates will be higher in the future – and if an FIA makes sense for a portion of their retirement portfolio – Allianz can provide solutions that offer additional benefits and more flexibility.



**FOR QUESTIONS OR SALES SUPPORT,**  
call the FASTeam at 800.950.7372.

Be sure clients consult with a qualified tax advisor before making any decisions regarding IRAs. This content is for general educational purposes only. It is not, however, intended to provide fiduciary, tax, or legal advice and cannot be used to avoid tax penalties or to promote, market, or recommend any tax plan or arrangement. Please note that Allianz Life Insurance Company of North America, its affiliated companies, and their representatives and employees do not give fiduciary, tax, or legal advice or advice related to Social Security or Medicare. State and local income taxes may apply.

Any distributions are subject to ordinary income tax and, if taken prior to age 59½, a 10% federal additional tax.

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# Roth IRA conversions with Allianz

Do you have clients whose financial and income-tax strategy could benefit from converting eligible qualified funds to a Roth IRA?<sup>1</sup> If so, here are three reasons to consider also using a fixed index annuity (FIA) from Allianz.



**Allianz supports partial Roth IRA conversions**

Allianz Life Insurance Company of North America (Allianz) is one of only a few companies in the FIA industry that supports internal partial Roth IRA conversions.<sup>2</sup>



**Allianz FIAs offer the opportunity for increasing income**

When placed within a Roth IRA, select Allianz FIAs can provide your clients guaranteed retirement income that is 100% federal-income-tax-free when qualified distributions occur – with an opportunity for income increases (through either built-in or additional-cost riders) over their lifetime.



**Premium and interest bonuses amplify the impact of a Roth IRA conversion**

Some of our FIAs offer premium and interest bonuses. Bonuses can help accelerate an increase in income potential, providing more retirement income that is federal-income-tax-free when qualified distributions occur.



→ **Scan the QR code** to learn more and see our full capabilities.

**Fixed index annuities are designed to meet long-term needs for retirement income. They provide tax-deferred accumulation potential, guarantees against the loss of principal and credited interest, and the reassurance of a death benefit for beneficiaries.**

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<sup>2</sup> The taxable conversion amount may be based on an amount that is greater than the contract value. Multiple partial Roth IRA conversions may result in your client receiving multiple contracts.

<sup>3</sup> Bonus annuities may include higher surrender charges, longer surrender charge periods, lower caps, higher spreads, or other restrictions that are not included in similar annuities that don't offer a bonus feature.

Be sure clients consult with a qualified tax advisor before making any decisions regarding IRAs. Please note that Allianz Life Insurance Company of North America, its affiliated companies, and their representatives and employees do not give legal or tax advice. You are encouraged to consult your tax advisor or attorney. State and local income taxes may apply.

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