



## Help Maximize Retirement Income with a Roth Conversion

GUARANTEE A TAX-FREE INCOME TOMORROW, WITH A FIXED INDEXED ANNUITY TODAY

Qualified plans and individual retirement accounts (IRAs) have become the cornerstone of many retirement income strategies. To encourage Americans to save for retirement, these plans are afforded several income tax advantages, including tax-deferred growth and in some cases the ability to make contributions on a pre-tax or tax-deductible basis. While these advantages are significant, distributions from these accounts are generally subject to income tax.

### Enter the Roth IRA.

A Roth IRA is a type of IRA that has its own income taxation rules. Generally treated like a traditional IRA, one advantage a Roth IRA has over other types of retirement savings vehicles is the potential for receiving future distributions on an income tax-free basis. In the right situation, you may wish to convert your retirement account to a Roth IRA through a “Roth Conversion.”

### What is a Roth Conversion?

A Roth Conversion is the transfer of funds from a traditional IRA, SEP IRA, SIMPLE IRA, or certain employer sponsored plans to a Roth IRA. This transfer is generally treated as a taxable distribution, and therefore included in your income in the year of the conversion.<sup>1</sup> However, you now have the potential of receiving future distributions from the Roth IRA both income and penalty-tax free.<sup>2</sup>

## Why Consider a Roth Conversion



### Potential for Tax-Free Income at Retirement

Certain distributions from a Roth IRA are received income tax-free.<sup>3</sup> These tax-free Roth IRA distributions should not impact the taxation of social security benefits or result in a Medicare premium surcharge (IRMAA) after retirement.<sup>4</sup>



### No Lifetime Required Minimum Distributions

Unlike traditional IRAs, Roth IRA account owners are not subject to required minimum distributions (RMDs) during their lifetime. This allows for funds inside of the account to continue to grow on an income tax-deferred basis during your lifetime. However, RMDs are required after your death.



### Creating a More Tax-Efficient Asset for Beneficiaries

A Roth IRA owner may designate a beneficiary to inherit the account upon the owner’s death. Although the inherited Roth IRA beneficiary is subject to RMDs, you can take advantage of the same favorable Roth IRA distribution rules. This can be an effective legacy planning strategy, especially if you do not qualify for life insurance.

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## Suitability of a Roth Conversion

- You should consider a Roth conversion if you...
- Would like to establish a potentially tax-free retirement income source to supplement other taxable income.
- Anticipate being subject to a higher tax rate during your retirement than in the present.
- Do not need access to the funds in the next 5 years.
- Seek to reduce your lifetime RMDs.
- Would like to pass the balance of this retirement vehicle to your heirs in a potentially tax-efficient manner.

## Check out the case study to see the potential benefit this strategy may have on your retirement plan.

### Case Study: Meet Carlos

- 55-year-old business owner
- Plans to retire in 10 years
- Has \$500,000 saved in a SEP IRA
- Desire to supplement his retirement funds with tax-free income
- Has excess funds set aside to cover the tax liability on the conversions

### How Carlos can benefit from a Roth Conversion

- IRA assets converted annually over 10 years: **\$67,934<sup>5</sup>**
- Annual taxes due on the Conversion: **\$23,777<sup>6</sup>**
- Funds placed in a Roth IRA purchase a FIT Select Income Annuity
- Projected Annual Tax-Free Income

from the policy's Guaranteed Lifetime Income Rider at age 65 (year 11): **\$72,581<sup>7</sup>**

- Annual Tax Savings on Income: **\$25,403**
- Total Tax Savings over Lifetime: **\$635,075**
- Projected Tax-Free Death Benefit: **\$2,174,502<sup>6</sup>**

To ensure a conversion of retirement vehicles to a Roth IRA meets your goals and objectives, you should consult with an appropriate legal or tax professional.

FIT Select Income fixed indexed annuity, form series 20375(0418)/ICC-18-20375(0418), and Guaranteed Lifetime Income Rider form series 20367(0518) are issued by Life Insurance Company of the Southwest.

The Guaranteed Lifetime Income Rider (GLIR) incurs an additional cost. Once GLIR is exercised, the Guaranteed Withdrawal Payments will reduce the policy's accumulated value, but you will continue to receive these payments during your lifetime even if your accumulation value declines to zero. This advertising material is used by multiple states, some with varying form number requirements; therefore, all required variations are provided.

Not all policies or riders are available in all states - please check with your agent regarding availability in your state.

- 1 There are some exceptions to this being treated as a taxable distribution, such as transfers from designated Roth accounts and transfers of after-tax contributions.
- 2 The taxation of Roth IRA withdrawals is complex and depends on numerous factors such as the classification of the distribution, ordering rules, recapture rules, aggregation rules, and potentially multiple 5-year holding periods. For more information, see [Internal Revenue Service Publication 590-B | Distributions from Individual Retirement Arrangements](#).
- 3 Qualified distributions, distributions of regular contributions, and distributions of conversion contributions are received income-tax free. Although a distribution is not subject to income tax, it may be subject to the 10% early withdrawal penalty unless an exception applies.
- 4 While future income tax-free Roth IRA distributions may not impact the taxation of social security benefits or add a Medicare premium surcharge, a Roth Conversion results in taxable income in the year of the conversion and may impact these items. Clients should consult with an appropriate legal or tax professional regarding their personal situation.
- 5 Assuming 6% rate of growth
- 6 35% Tax Bracket
- 7 FIT Select Income, 55 year-old, 50% Global Balanced Index Point-to-Point 50% US Fundamental Balanced Index Point-to-Point, Split Bonus GLIR option. Assumes all distributions from the Roth IRA are received on an income tax-free basis.

