

# Partial Roth IRA Conversion Guidelines

Issued by North American Company for Life and Health Insurance<sup>®</sup>

**We recently implemented the ability to do partial Roth conversions. See the FAQ below to understand this new process.**

## Frequently Asked Questions (FAQ)

### Q: What is a partial Roth conversion?

**A:** A partial Roth conversion occurs when a client chooses to take a portion of their account value from an existing individual retirement account (IRA) and convert that portion into a tax status of Roth IRA. The amount converted is a taxable event. However, all future distributions from the **Roth IRA are tax-free**, as long as the Roth IRA has been open for more than five years **and** the contract owner is at least age 59 ½.

### Q: What are the additional benefits of a Roth IRA?

- A:**
- No RMDs are required during the owner's lifetime.
  - A Roth IRA can be used as an estate planning tool because the assets can be passed on tax-free to beneficiaries.
  - Tax diversification of retirement assets allows for more flexibility to manage taxable income in retirement.

### Q: How does my client request a Roth conversion?

**A:** A full or partial conversion can be requested by completing the Roth IRA conversion form 34460Z. This form can be obtained from our website and is also available for electronic signature via Firelight post issue forms. If applicable, clients should take any required minimum distributions (RMDs) from the contract prior to requesting a conversion.

### Q: When can my clients request a partial Roth conversion?

**A:** Your clients can request a partial Roth conversion for a fixed index annuity contract issued February 1, 2024 or later.

### Q: How does a partial Roth conversion work?

**A:** North American will create a new contract that mirrors the original IRA. The original IRA will be referred to as the **primary contract**. The converted contract will retain all the same product features and contractual provisions as the primary contract. It will also retain the same owner and annuitant, allocations and beneficiaries. When the converted contract is created, we will establish a 5-year clock for the purpose of determining when the distributions become tax-free.

Any subsequent partial Roth conversions placed into the mirrored converted contract will not reset the 5-year clock. Partial Roth conversions will not undergo suitability. In addition, they will not be eligible for additional agent compensation or count toward loyalty program eligibility.

### Q: Will converted contracts be issued new contract numbers?

**A:** The primary IRA contract will retain its original contract number, and the converted Roth IRA contract will receive a new contract number. If the client initiates subsequent partial Roth conversion requests, those amounts will go into the existing converted contract. This means there will be only two contracts: the original primary IRA contract and the Roth IRA contract.

### Q: How long after their contract is issued can my client request a partial Roth conversion?

**A:** Your client's partial Roth conversion paperwork can be received at any time after the primary contract is issued.

### Q: What communications will North American send to my clients? (Confirmation statement, tax document, etc.)

**A:** We will mail your client a confirmation letter and a Roth endorsement when the conversion is complete. Your client will not receive an additional set of contract pages.

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## Frequently Asked Questions (FAQ) *continued*

### **Q: What communications will I receive from North American?**

**A:** You can access your client's confirmation letter under the Inforce Correspondence section of the agent website. Simply log in to [NorthAmericanCompany.com](http://NorthAmericanCompany.com) and select My Business > Inforce Correspondence to access the confirmation letter.

### **Q: Is there a minimum amount for conversion?**

**A:** Yes, the minimum amount for each conversion is \$5,000. There is no limit to the number of conversions.

### **Q: Do converted contracts start a new surrender charge schedule?**

**A:** No, the converted contract will retain the same policy effective date and maintain the same position in the surrender charge schedule as the primary contract.

### **Q: Can my client elect tax withholding on the converted amount?**

**A:** Clients will have the ability to elect tax withholding on the converted amount up to the contract's penalty free amount; however, if the penalty free amount has already been exhausted on the original IRA contract, tax withholding will not be allowed, as we do not want the contract owner to incur surrender charges, market value adjustment (MVA), premium bonus or strategy fee recapture.

### **Q: Can my client do a partial Roth conversion after income is turned on?**

**A:** No, once lifetime payment amounts (LPAs) have started on the primary or converted contract, we cannot process a partial Roth

conversion out of the primary or into the converted contract. For the **NAC Control. X<sup>SM</sup> fixed index annuity**, a partial Roth conversion can occur on the portion of the primary contract's deferred income base that has not turned on LPAs.

### **Q: When clients turn on an income rider, what contract will their withdrawals come from?**

**A:** When clients decide to turn on income (or take a withdrawal), they must specify if the withdrawal should come from the primary or converted contract.

### **Q: How will annual statements and renewal reallocation correspondence change for a partially converted contract?**

**A:** For partial Roth conversions, your clients will receive an annual statement for each contract (primary and converted).

### **Q: Which anniversary date will the partially converted contract have?**

**A:** The partially converted contract will have the primary contract's anniversary date. Since the converted contract is a mirror image of the primary contract, both will maintain the same contract anniversary date for renewal/reallocation purposes, surrender charges/timelines, etc.

### **Q: What tax documentation is associated with a conversion?**

**A:** Your clients will receive a 1099R and a 5498 for the tax year in which they convert the tax status to a Roth IRA.

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**NAC Control. X<sup>SM</sup>** is issued on base contract form NA1015A/ICC21-NA1015A or appropriate state variation including all applicable endorsements and riders.