PARTIAL TAX CONVERSION

FREQUENTLY ASKED QUESTIONS (FAQS)

One option to help optimize a client's retirement strategy and help provide more control over the timing and amount of taxes paid is to implement a partial or systematic tax conversion of an EquiTrust deferred Qualified annuity contract into a Roth IRA or Non-Qualified contract. The FAQs below can help you put this strategy into action for suitable clients.

Q: What is a Partial Tax Conversion (PTC)?

A: It's the ability for an annuity owner to convert:

- Traditional, SEP or SIMPLE IRA to a Roth IRA: The owner can systematically convert a fully taxable IRA contact into a non-taxable Roth IRA over time. That means they have more control over when they pay taxes — they can pay lesser taxes on the partial conversion amounts vs. paying income taxes when they use the money for retirement income.

- Inherited IRA to Non-Qualified contract: The owner can convert a fully taxable Inherited IRA contract into a tax-deferred Non-Qualified contract over time. Only the future gain will be taxed upon distribution.

Q: What EquiTrust products can be converted via a PTC?

A: PTC is available on any Qualified, inforce EquiTrust deferred annuity.

Q: Is this available on inherited contracts?

A: Yes, an Inherited IRA contract can be converted to a Non-Qualified contract.

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Q: Is this available on Stretch IRAs?

A: No. For more information or to see how Stretch/Inherited IRAs differ from traditional IRAs, visit Agents.EquiTrust.com to refer to the Inherited/Stretch IRA Rules flyer (ET-INHRSTRCHRULES) under Forms/Forms & Supplies.

Q: How flexible is the PTC program?

A: Flexibility is an important component of the PTC program. The annuity owner can determine when and how much money they want to convert, subject to no more than one partial conversion per contract year. They can also set up the conversion on an annual systematic schedule, with the ability to stop and start as desired. The date can be selected by the owner. To summarize, conversions can be structured as:

- One-time partial conversion
- Systematic partial conversion of a specified dollar amount
- Systematic conversion over a number of years as determined by the client

Q: How does the conversion of the original contract work?

A: The new contract mirrors the original contract, except for the tax qualification, with the same:

- Effective date
- Client roles
- Agent
- Account allocations
- Credited rates
- Riders

After conversion, all contractual provisions are available independently on the two contracts. That includes beneficiaries, transfers, withdrawals, additional premiums, etc. The mirrored contract is not considered a replacement.

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Q: What if my client has been taking systematic withdrawals from their original contract?

A: If they want to continue the systematic withdrawals on both contracts, the client will need to submit a new systematic withdrawal form for their mirrored contract.

Q: Does every conversion event result in an additional mirrored contract?

A: No. There will be a maximum of two contracts active at any time — the original contract (Qualified) and the mirrored contract (Roth/Non-Qualified). The converted money moves from one contract to the other.

Values are removed proportionately from the original contract to the mirrored contract based on the gross amount of the conversion. This includes Minimum Guaranteed Contract Value, free remaining/free used and Income Rider Benefit Base, if applicable. When the value of the original contract is depleted, the original contract will be closed.

Q: What about tax withholding?

A: The partial tax conversion will generate tax reporting:

- 1099 — IRA distribution
  - PTC transaction captured
  - Shows the amount of taxes withheld, if applicable[1]
- 5498 — For Roth portion
  - Shows the actual amount moving into the Roth contract after taxes are withheld

From the date the first designated contribution is converted from the original contract to the Roth IRA, the owner is required to wait five years and until age 59½ before distributions are tax-free. Distributions are reportable, but not taxable, assuming all IRS rules have been met.

EquiTrust will do the tax withholding at the time of conversion, generating the Form 1099R for your client – including any withholding they request.

Q: Will the owner be sent a new contract?

A: No. The owner will receive a letter confirming the conversion. The new contract number will be included in the letter.

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Q: How many annual statements will be generated?

A: There will be two statements; one for the original contract and one for the Roth/Non-Qualified contract.

Q: When is the best time to implement a PTC?

A: For many types of retirement accounts, owners are required to start taking Required Minimum Distributions (RMDs) in retirement. Living owners of Roth IRAs, however, are not subject to RMDs (though rules may be different for heirs). Money can be left in a Roth IRA without the owner incurring an IRS penalty. That's why converting some or all of a traditional IRA into a Roth IRA before their RMD Required Beginning Date can be a good option for suitable clients.

The owner's tax bracket is also a consideration. Paying taxes now on partial conversion amounts — while the owner may be in a lower tax bracket — may offer tax advantages. There is a possibility that income tax rates could increase in the future, making a PTC over time a good option for many clients.

Q: Are commissions or bonuses paid on the converted amount?

A: No, there are no commissions or bonuses paid on the converted amount that is moved to the mirrored contract.

Q: What if I've been receiving Option B or C trail commissions on the original contract?

A: Trails will be paid from both the original contract and the mirrored contract based on the account values of each.

Q: How can I get the process started for a client?

A. Visit Agents.EquiTrust.com to find the Annuity Tax Conversion Form (ET-CONVERSION) under Forms & Supplies/Forms.

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[1] Any amount withheld before age 59½ may result in a 10% IRS penalty tax.