



Advanced Roth IRA Strategies



Welcome



Agenda

The future tax environment may be attractive for Roth IRAs

- Roth IRA basics
- The benefits of Roth IRAs
- Roth conversion strategies



The future tax environment

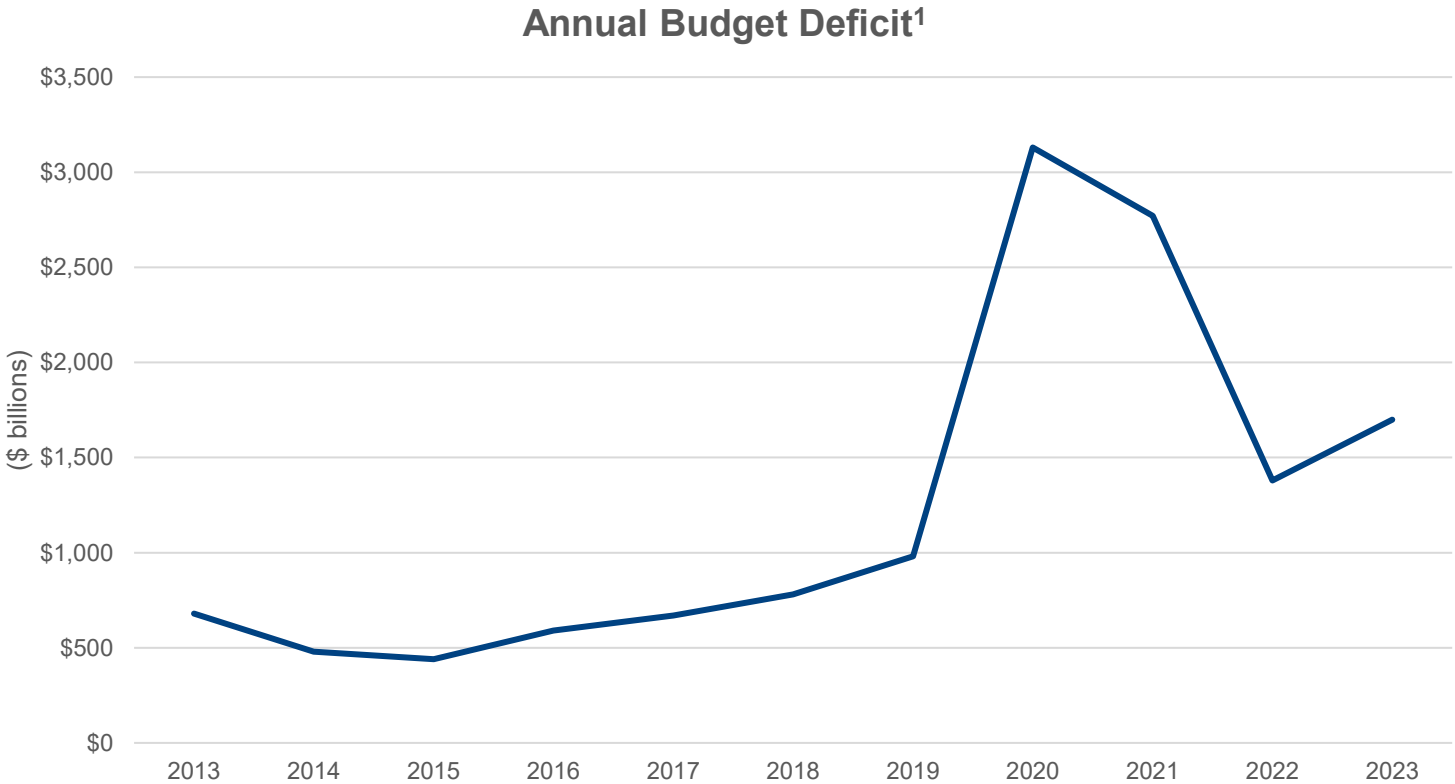
How do budget deficits, entitlements and taxation affect Roth IRAs?



Budget deficits have been rising



- CBO projections: annual deficits average **\$2.0 trillion** a year from 2024 to 2033²
- On April 11, 2024, the federal debt stood at **\$34.6 trillion**³

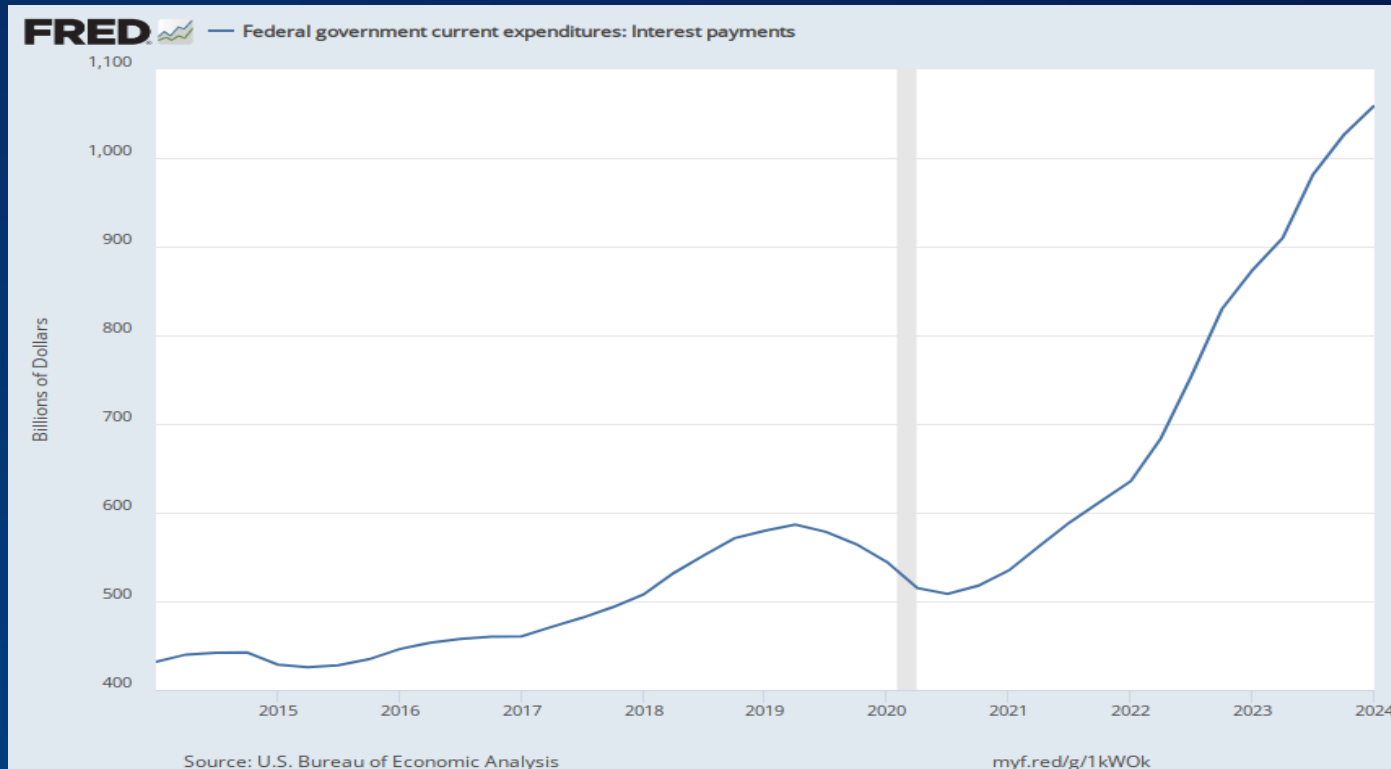


¹ fiscaldata.treasury.gov/

² The Budget and Economic Outlook: 2023 to 2033; Congressional Budget Office; 2/2023; www.cbo.gov/publication/58946#_idTextAnchor158; viewed 11/13/2023.

³ fiscaldata.treasury.gov/datasets/debt-to-the-penny/debt-to-the-penny

Public debt interest cost is rising rapidly



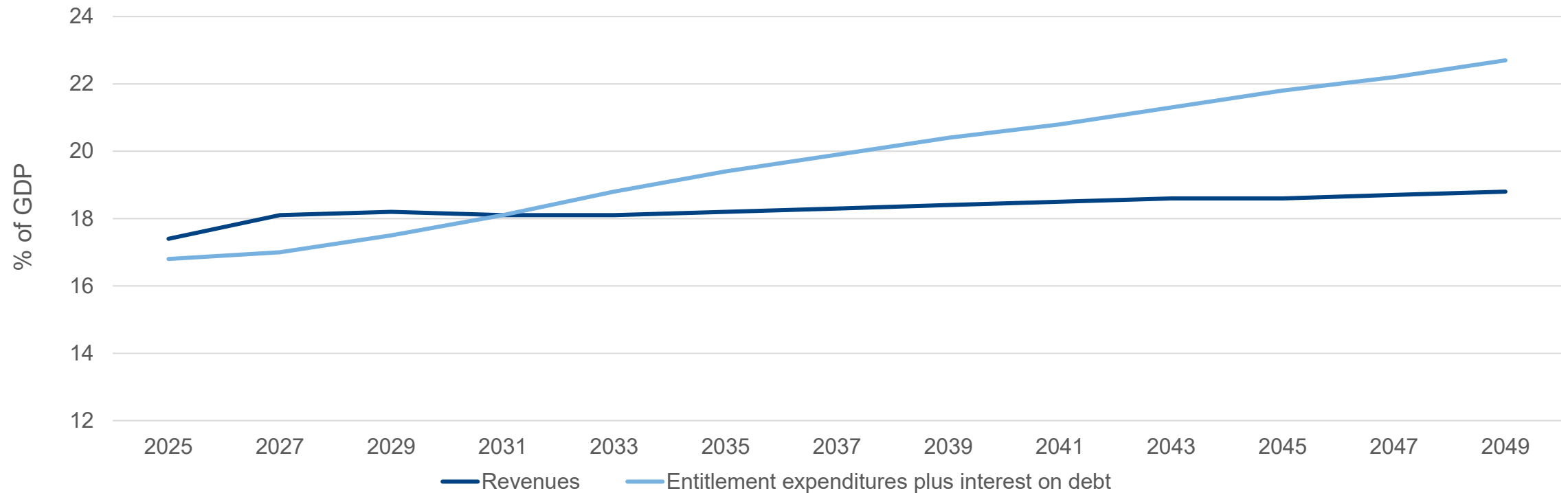
- **\$9.2 trillion** of U.S. debt matured in 2024*
- Over **\$10 trillion** in debt will be issued by the U.S. government in 2024*

fred.stlouisfed.org/series/A091RC1Q027SBEA

* www.apolloacademy.com/10-trillion-in-us-treasuries-coming-to-the-market-in-2024

All revenue will be consumed by entitlements by 2031

It's estimated that entitlements such as Social Security, Medicare, Medicaid and debt-interest payments consume 100% of government revenue by 2031*



The Long-Term Outlook for the Budget; Congressional Budget Office; www.cbo.gov/data/budget-economic-data#; viewed 11/13/2023.

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Roth IRA basics

The impact of IRS retirement limits, Roth IRA rules and the SECURE Act of 2019



2025 Retirement limits

2025 Roth IRA contribution limits

\$7,000	if under age 50
\$8,000	if age 50+ (\$1,000 catch-up contribution)

Income limitations:

Single **\$150,000 - \$165,000**

Joint: **\$236,000 - \$246,000**

Potential non-deductible contributions if income exceeds limit to contribute to a Roth IRA

2025 401(k) contribution limits

\$23,500	maximum employee elective contribution (pretax)
\$7,500	catch-up contribution age 50+ (pretax)
\$70,000	maximum contribution (after tax)
\$77,500	age 50+ (after tax)

No income limitation

*"IRS announces changes to retirement plans for 2022"; IRS; <https://www.irs.gov/newsroom/irs-announces-changes-to-retirement-plans-for-2022> 7/13/2022.

Roth IRA contributions and conversions

Roth contribution rules*

- Must have enough earned income
- Must be under the Modified Adjusted Gross Income (MAGI) limits
- Recharacterization allowed

Distributions will be tax-free if taken later than age 59½ and five years after first contribution.

Roth conversion rules*

- Tax recognized in the year of conversion
- Aggregation required
- Partial conversions permitted
- Recharacterization not allowed

Distributions of conversion amounts will be penalty-free if taken more than five years after conversion or if after age 59½.

*"IRS announces changes to retirement plans for 2022"; IRS; <https://www.irs.gov/newsroom/irs-announces-changes-to-retirement-plans-for-2022>; 7/13/2022.

The SECURE Act has changed Inherited IRA strategy

Replaces the beneficiary stretch with a 10-year payout for most individual beneficiaries

Required minimum distributions (RMDs) must be taken from inherited IRAs where decedent passed after the required beginning date

- Inherited Roth is exempt from the mandatory RMD requirement

Exceptions to 10-year payout (eligible designated beneficiaries)*

- Surviving spouse (spousal rollover still available)
- Beneficiary not more than 10 years younger
- Disabled/chronically ill beneficiary
- Minor child (not grandchild) of the owner – must switch to 10-year at age of majority

*Weltman, B.; "The Rules on RMDs for Inherited IRA Beneficiaries"; Investopedia; 3/19/2022; <https://www.investopedia.com/articles/personal-finance/102815/rules-rmds-ira-beneficiaries.asp>; viewed 7/13/2022.

The benefits of Roth IRAs



- Tax-free growth and withdrawals
- No RMDs
- Continued tax-free status for heirs for 10 years
- Impact on Social Security and Medicare
- Impact on tax strategies

Tax-free distributions reduce tax equivalent withdrawal rates

Traditional IRA withdrawal needed to pay resulting taxes

Roth withdrawal rate	Tax brackets						
	10%	12%	22%	24%	32%	35%	37%
3.00%	3.33%	3.41%	3.85%	3.95%	4.41%	4.62%	4.76%
4.00%	4.44%	4.55%	5.13%	5.26%	5.88%	6.15%	6.35%
5.00%	5.56%	5.68%	6.41%	6.58%	7.35%	7.69%	7.94%
6.00%	6.67%	6.82%	7.69%	7.89%	8.82%	9.23%	9.52%
7.00%	7.78%	7.95%	8.97%	9.21%	10.29%	10.77%	11.11%

Hypothetical example shown for illustrative purposes only

Roth IRAs can reduce distribution risk

IRA beginning of year	RMD Percentage	S&P 500® Return	RMD income	IRA Value end of year
\$ 1,000,000.00	3.77%	-9.10%	\$ 37,735.85	\$ 871,264.15
\$ 871,264.15	3.92%	-11.89%	\$ 34,167.22	\$ 733,503.62
\$ 733,503.62	4.07%	-22.10%	\$ 29,817.22	\$ 541,582.10
\$ 541,582.10	4.22%	28.68%	\$ 22,851.57	\$ 674,056.28
\$ 674,056.28	4.37%	10.88%	\$ 29,434.77	\$ 717,958.83
\$ 717,958.83	4.55%	4.91%	\$ 32,634.49	\$ 720,576.12
\$ 720,576.12	4.74%	15.79%	\$ 34,150.53	\$ 800,204.56
\$ 800,204.56	4.95%	5.49%	\$ 39,614.09	\$ 804,521.71
\$ 804,521.71	5.15%	-37.00%	\$ 41,470.19	\$ 465,378.48
\$ 465,378.48	5.41%	26.46%	\$ 25,155.59	\$ 563,362.04
\$ 563,362.04	5.75%	15.06%	\$ 32,377.13	\$ 615,827.23
			\$ 359,408.65	

Roth IRA value (end of year)
\$ 909,000.00
\$ 800,919.90
\$ 623,916.60
\$ 802,855.88
\$ 890,206.60
\$ 933,915.75
\$ 1,081,381.04
\$ 1,140,748.86
\$ 718,671.78
\$ 908,832.34
\$ 1,045,702.49

- RMDs are required on Traditional IRAs regardless of market conditions.
- There's a 25% penalty if not taken.
- Taking RMDs in a down market can significantly impact both IRA account value and RMD income.
- S&P 500® returns from 2000 to 2010.

Hypothetical example shown for illustrative purposes only, is not guaranteed and does not reflect taxes or investment fees which would reduce the figures shown here. It is not possible to invest directly in an index.

Inherited Roth IRAs unlock the power of tax-free growth potential

BENE-IRA (beginning of year)	Age	RMD Percentage	S&P 500® Return	RMD income	BENE-IRA (end of year)
\$ 615,827.00	51	2.83%	2.11%	\$ 17,445.52	\$ 611,375.43
\$ 611,375.43	52	2.92%	16.00%	\$ 17,824.36	\$ 691,371.14
\$ 691,371.14	53	3.00%	32.39%	\$ 20,761.90	\$ 894,544.35
\$ 894,544.35	54	3.10%	13.69%	\$ 27,694.87	\$ 989,312.60
\$ 989,312.60	55	3.19%	1.38%	\$ 31,607.43	\$ 971,357.69
\$ 971,357.69	56	3.30%	11.96%	\$ 32,058.01	\$ 1,055,474.06
\$ 1,055,474.06	57	3.41%	21.83%	\$ 36,023.01	\$ 1,249,861.04
\$ 1,249,861.04	58	3.53%	-4.38%	\$ 44,164.70	\$ 1,150,952.42
\$ 1,150,952.42	59	3.66%	31.49%	\$ 42,159.43	\$ 1,471,227.91
\$ 1,471,227.91	60	100.00%	18.40%		\$ 1,741,933.85
					Tax at 37% =
				\$269,739.22	\$644,515.52

Roth IRA value (end of year)
\$ 1,045,702.00
\$ 1,067,766.31
\$ 1,238,608.92
\$ 1,639,794.35
\$ 1,864,282.20
\$ 1,890,009.29
\$ 2,116,054.40
\$ 2,577,989.08
\$ 2,465,073.16
\$ 3,241,324.70
\$ 3,837,728.44

- In 2022, IRS has determined that RMDs must be taken from Inherited IRAs when the decedent has passed after the required beginning date.
- There's a 25% penalty if not taken.
- S&P 500® returns from 2011 to 2020.

Hypothetical example shown for illustrative purposes only, is not guaranteed and does not reflect taxes or investment fees which would reduce the figures shown here. It is not possible to invest directly in an index.

Medicare premiums

What are the premium costs?*

Monthly premium pricing tiers are calculated on MAGI from two years prior

For 2025, if your MAGI in 2023 was:

File individual tax return	File joint tax return	2025 monthly Part B premium	Medicare Part D monthly cost
\$106,000 or less	\$212,000 or less	\$185.00	Plan premium
\$106,001 - \$133,000	\$212,001 - \$266,000	\$259.00	+\$13.70
\$133,001 - \$167,000	\$266,001 - \$334,000	\$370.00	+\$35.30
\$167,001 - \$200,000	\$334,001 - \$400,000	\$480.90	+\$57.00
\$200,001 - \$500,000	\$400,001 - \$750,000	\$591.90	+\$78.60
Over \$500,000	Over \$750,000	\$628.90	+\$85.80

Even \$1 of IRA withdrawals causing retirees to cross Medicare tiers could raise Medicare premiums by over 40%

* "2024 Medicare Parts A & B Premiums and Deductibles"; <https://www.cms.gov/newsroom/fact-sheets/2024-medicare-parts-b-premiums-and-deductibles>; Centers for Medicare & Medicaid Services; 9/12/2021; <https://www.cms.gov/newsroom/fact-sheets/2022-medicare-parts-b-premiums-and-deductibles2022-medicare-part-d-income-related-monthly-adjustment>; viewed 7/13/2022

Roth conversion strategies



Building Roth conversion into a retirement strategy involves weighing the benefits and considerations of different types of conversions

Roth conversion strategies

Benefits

- Hedge against rising taxes
- Tax diversification
- No RMDs
- Estate planning benefits

Considerations

- Current market conditions
- Time horizon
- Current tax bracket
- Tax rates when retired (federal and state)
- Paying the conversion tax liability

Types of conversions

- Serial conversion
- Tactical conversion
- Conversions in retirement
- 401(k) after-tax conversions

Roth conversions — Traps to avoid

It's important to be aware of unintended consequences of a Roth conversion

- Triggering alternative minimum tax (AMT)
- Effect on Medicare surtax
- Causing increased Medicare premiums
- Potential loss of health care plan subsidies
- Lost ability to deduct medical expenses
- Increasing taxes on Social Security benefits of unintended consequences of a Roth conversion

Serial conversion

Employs consistent small annual conversions (typically 1% - 5%)

- Often for larger IRAs where income may not be needed
- The earlier the better
- Amortizes the tax over longer periods of time
- Shifts the growth of the Traditional IRA to the Roth IRA over time
- Results in lower RMDs in retirement
- Beneficiaries receive tax-free assets rather than large imbedded tax liability

Serial conversion

55 year-old with beginning of year \$500,000 Traditional IRA converting \$20,000 annually to Roth

Age	Traditional IRA (No conversion) (EOY balance)	Reinvested after-tax value of RMDs taken	Traditional IRA after converting \$20,000/year	Reinvested after-tax value of RMDs taken	Roth IRA (funded w/ \$20,000 per year)
56	\$525,000		\$504,000		\$21,000
65	\$814,447		\$550,311		\$264,135
72	\$1,146,009		\$603,361		\$542,648
Death at age 85	\$1,168,770	\$754,072	\$347,534	\$317,848	\$1,395,215

Income taxes (24% Rate)	Traditional IRA	Serial Roth strategy
Total tax paid by owner	\$180,158	\$222,598
Taxes payable by beneficiary	\$280,504	\$73,798
Total	\$460,663	\$306,006

Assumes 24% tax rate that does not change; a net 5% return on IRA, Roth IRA, and reinvested RMDs; and RMDs are invested in individual equity positions with no dividends eligible for basis step-up at death of IRA owner, with no capital gains or income tax due at liquidation. Hypothetical example shown for illustrative purposes only. Does not reflect the deduction of investment fees which would reduce the figures shown.

Tactical conversion

In a tactical conversion, an investor can create a situation that improves the economics of converting during a specified timeframe

- Converting in bear markets
- Investors who make charitable gifts
- Recent retirees with high cash balances
- Executives with non-qualified deferred compensation plans
- Business owners with an operating loss

Tactical conversion

Offsetting Roth conversion income with a net operating loss

- A net operating loss (NOL) occurs when business expenses and deductions exceed business income in a given tax year
- Businesses that operate as passthrough entities can carry Schedule C business losses onto the 1040 and partially offset other types of income, including Roth conversion income — entity type will affect how the loss is calculated
- Taxpayers are allowed to deduct NOLs only up to 80% of taxable income in that year
- Limitation on “excess business losses” results in owners being restricted from deducting business losses in excess of \$305,000 per taxpayer (individuals) or \$610,000 (married couples filing a joint return)

Tactical conversion

Consider this example:

- Ted is a sole proprietor reporting an NOL of \$400,000 on Schedule C
- He has an IRA with a current value of \$500,000
- Ted's spouse Sharon works, and they report \$100,000 in taxable income on their 1040
- Ted and Sharon can offset up to 80% of their total taxable income, carrying any unused portion to offset future income

Hypothetical example shown for illustrative purposes only.

Example: NOL with no Roth IRA conversion

Taxable income	\$100,000
NOL deduction limit	80%
Maximum NOL deduction	(\$80,000)
Taxable income after NOL deduction	\$20,000
NOL carryforward to future years	\$320,000

Example: NOL with Roth IRA conversion

Taxable income	\$100,000
Roth conversion	\$400,000
NOL deduction limit	80%
Maximum NOL deduction	(\$400,000)
Taxable income after NOL deduction	\$100,000
NOL carryforward to future years	\$0

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A 3D wireframe bar chart with blue lines and dots, showing an upward trend in five bars of increasing height. The chart is set against a dark blue background with faint star-like dots.

ROTH CONVERSION OPTIONALITY WITH A FIXED INDEX ANNUITY

Jim Foster, CFP[®], CLU[®], CRPC[®]
Head of Advanced Planning Eagle Life

Roth Conversion Optionality with Eagle Select Focus 5 & 7 fixed index annuities

- Most investment products including most annuities are daily marked to market.
- A Fixed Indexed Annuity is different. The value remains the amount of the premium until the interest is credited at the end of a predetermined term.
- The FIA not only protects the client's retirement assets; it may provide future “optionality” on a Roth Conversion.
 - If the value maintains or only appreciates marginally – The investor may decide to retain the FIA in their traditional IRA.
 - If the value appreciates significantly – The client has the option to convert prior to the interest being credited and the conversion value will only be the original premium.

Roth Conversion Optionality with EL Select Focus 5 & 7

- Typically, the best option will be Accumulation Annuity with longer terms (5-years) and largest upside opportunity.
- For allocations for potential conversions, do not combine with other investment options and maturities.
- If the client does not currently have a Roth IRA, consider opening a small Roth IRA at the time of the FIA purchase in their traditional IRA. This will help avoid the 5-year test on investment gains.



Meet Elaine

- 56 Years Old
- Retirement Age of 59 ½
- Current Tax Bracket 35%
- Retirement Tax Bracket of 22%



Elaine's Concern

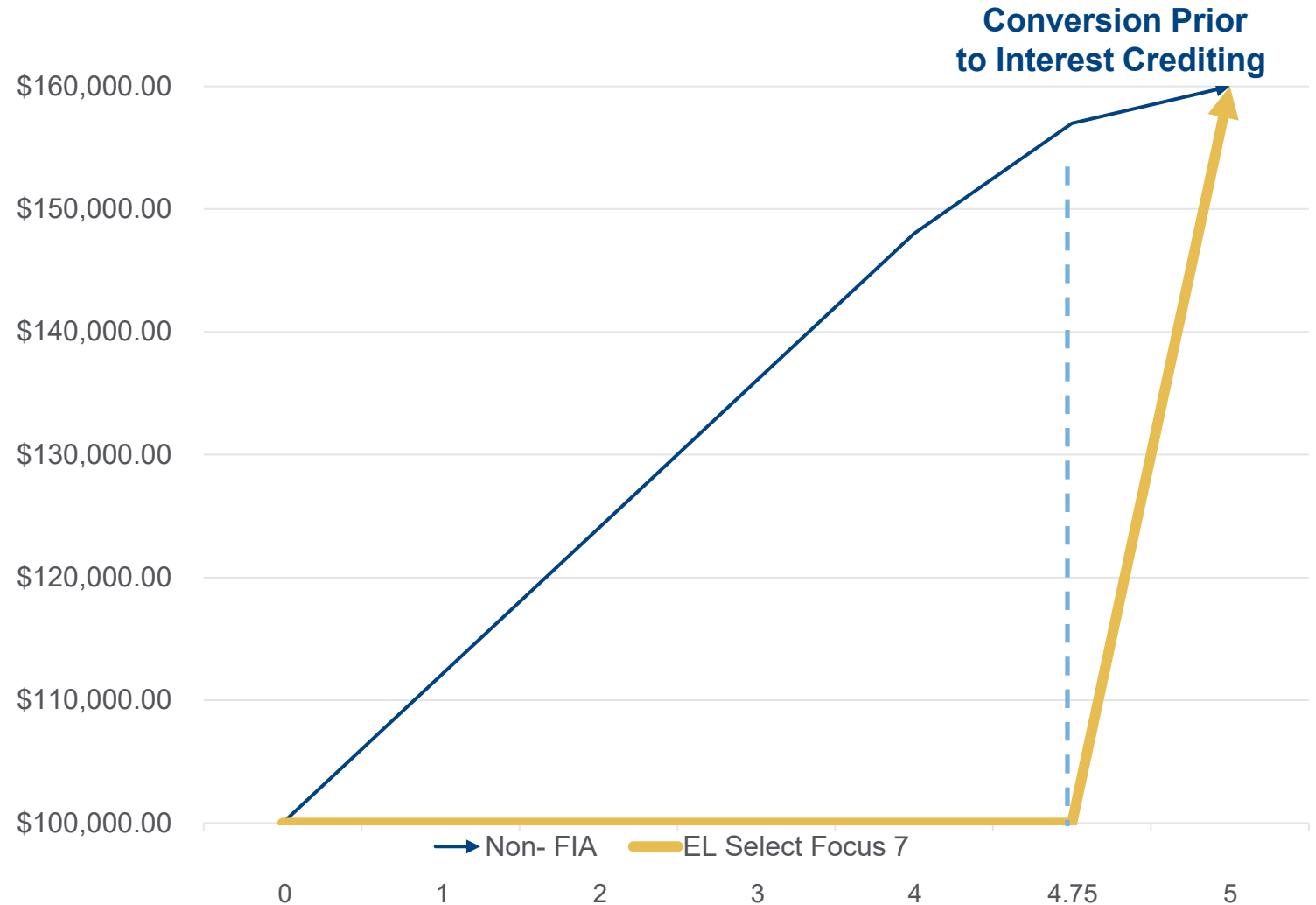
Elaine is considering a Roth Conversion of \$100,000 with the intention of leveraging the tax-free growth and leaving it to her daughter Beth who will inherit her Roth IRA.

Given a recent market downturn, Elaine is unsure whether to convert today while markets are low or wait until retirement.

A Tax Arbitrage:

- Conversion Value: \$100,000
- Anticipated Value: \$160,000
- Tax Rate at Purchase: 35%
- Retirement Tax Rate: 22%
- Tax: \$22,000
- Effective Tax Rate: 13.75%

FIA vs Mark-to-Market Asset



FIA Effective Conversion Tax Rate

		Marginal Tax Rate						
		10.00%	12.00%	22.00%	24.00%	32.00%	35.00%	37.00%
Hypothetical Investment Gains	20.00%	8.33%	10.00%	18.33%	20.00%	26.67%	29.17%	30.83%
	40.00%	7.14%	8.57%	15.71%	17.14%	22.86%	25.00%	26.43%
	60.00%	6.25%	7.50%	13.75%	15.00%	20.00%	21.88%	23.13%
	80.00%	5.56%	6.67%	12.22%	13.33%	17.78%	19.44%	20.56%
	100.00%	5.00%	6.00%	11.00%	12.00%	16.00%	17.50%	18.50%
	120.00%	4.55%	5.45%	10.00%	10.91%	14.55%	15.91%	16.82%
	140.00%	4.17%	5.00%	9.17%	10.00%	13.33%	14.58%	15.42%

Tax rates are accurate as of 5/25/2025 and are subject to change without notice.

Considerations: The 5 – Year Rule

All Roth IRA Accounts are Considered One Account

Withdrawal	Treatment	Under 59 1/2		Over 59 1/2	
		5-Year Conversion Holding Period Not Met	5-Year Conversion Holding Period Met	Less than 5-Years since opening the first Roth IRA	More than 5-Years since opening the first Roth IRA
Contributions	Tax	No	No	No	No
	Penalty	No	No	No	No
Conversion (Taxable)	Tax	No	No	No	No
	Penalty	Yes	No	No	No
Conversion (Nontaxable)	Tax	No	No	No	No
	Penalty	No	No	No	No
Earnings	Tax	Yes	Yes	Yes	No
	Penalty	Yes	Yes	No	No

Retirement conversion

Used for clients looking to reduce RMDs and benefit heirs

- Client is subject to RMDs, but does not want or need income
- Client desires to leave tax-advantaged accounts to heirs
- Helps reduce RMDs over time
- Provides tax-free Roth to heirs

Strategy:

Use after-tax RMD payment to finance annual Roth conversion over time.

Retirement conversions

Use RMDs to finance conversion tax

Age	IRA	RMD	After-tax (24% Tax)	Conversion	Conversion tax (24%)	Roth w/ 6% growth
73	\$1,000,000	\$37,700	\$28,652	\$119,383	\$28,652	\$126,546
74	\$893,491	\$35,024	\$26,618	\$110,912	\$26,618	\$251,705
75	\$792,407	\$32,251	\$24,510	\$102,128	\$24,510	\$375,064
76	\$697,510	\$29,434	\$22,370	\$93,210	\$22,370	\$496,371
77	\$609,356	\$26,628	\$20,237	\$84,324	\$20,237	\$615,537
78	\$528,307	\$24,037	\$18,268	\$76,120	\$18,268	\$733,157
79	\$453,857	\$21,511	\$16,349	\$68,121	\$16,349	\$849,355
80	\$386,507	\$19,109	\$14,523	\$60,514	\$14,523	\$964,462
81	\$324,819	\$16,728	\$12,713	\$52,972	\$12,713	\$1,078,480
82	\$270,425	\$14,630	\$11,118	\$46,328	\$11,118	\$1,192,297

Assumes 24% marginal tax bracket; also assumes a net 6% return on IRA and Roth IRA assets. Distributions and conversion occur at beginning of year. Hypothetical example shown for illustrative purposes only. Does not reflect the deduction of investment fees which would reduce the figures shown

After-tax 401(k) conversion

IRS Notice 2014-54: Plan participants can roll pretax contributions to Traditional IRA, after-tax to a Roth IRA

- Not all plans offer after-tax contributions
- Not subject to 2025 deferral limitations
- Subject to 2025, \$70,000 overall plan contribution limits
- After-tax contributions subject to non-discrimination test
- Plan may permit in-service withdrawals of after-tax contributions and/or internal conversions of after-tax contributions

Conclusion

- Future tax environment is uncertain, but points to potentially higher taxes
- Roth IRAs can be an effective tool in diversifying tax allocations
- Roth IRAs aren't subject to RMDs and can be effective in managing many risks to retirement assets
- Roth IRAs are among the most tax-efficient assets to leave to heirs
- Roth conversion strategies are an important consideration in any retirement strategy

QUESTIONS?



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Possible interest credits for money allocated to an index-linked crediting strategy are based upon performance of the specific index; however, fixed index annuities are not an investment, but an insurance product, and do not directly invest in the stock market or the index itself.

Withdrawal charges may apply to an annuity. Interest earnings in an annuity are not taxed until withdrawn. Annuity withdrawals and distributions may be subject to income tax and, if withdrawals or distributions are taken prior to age 59½, a 10% federal penalty tax may apply.

Under current tax law, the Internal Revenue Code already provides tax deferral to qualified money, so there is no additional tax benefit obtained by funding a qualified contract, such as an IRA, with an annuity; consider the other benefits provided by an annuity, such as lifetime income and a Death Benefit. Indexed annuities are not stock market investments and do not directly participate in any stock or equity investments. Market indices may not include dividends paid on the underlying stocks, and therefore may not reflect the total return of the underlying stocks; neither an index nor any market-indexed annuity is comparable to a direct investment in the equity markets.