

Partial Roth IRA Conversion Guidelines

Issued by North American Company for Life and Health Insurance®

We recently implemented the ability to do partial Roth conversions. See the [frequently asked questions \(FAQ\)](#) below to understand this new process.

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 in the year of the conversion.

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.

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: When do early distribution penalties apply to a Roth conversion?

A: The 5-year period used for determining whether the 10% early distribution tax applies is determined separately for each conversion. While each conversion has a 5 year wait period, this is no longer relevant once the Roth IRA owner is over age 59 ½ as long as the first Roth IRA established by the Roth IRA owner is 5 or more years old. Because North American is unable to determine when the client's first Roth IRA was established, we will report an early distribution if the withdrawal occurs before the client turns age 59 ½ or if the Roth IRA with North American is less than 5 years old.

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.

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 and select My Business > Inforce Correspondence to access the confirmation letter.

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Frequently Asked Questions (FAQ) *continued*

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. The tax withholding amount is considered a withdrawal from the contract. Because it is considered a withdrawal, the client may only elect to withhold up to the penalty free amount available at the time of the conversion. We limit the withholding amount to penalty free withdrawals because we do not want the client to incur surrender charges, market value adjustment (MVA), premium bonus or strategy fee recapture due to a tax withholding withdrawal. Clients should be aware that tax withholding will be reported as a distribution from the contract and is considered taxable income. If the owner is under age 59 1/2 it may be subject to the early distribution tax penalty.

Q: How do index allocations carry over from the original to the converted contract?

A: Index allocations are carried over from the original contract to the converted contract at the allocation percentages specified on the original contract at the time of the first conversion. Because the original and Roth converted contracts can act independently with respect to allocations, clients should be aware that subsequent conversions will also carry over the actual dollar amounts based on the allocations from the original contract. Note: the allocation percentages may not match those of the converted contract if allocation changes were made to either the original or converted contract. Clients who own the NAC Guaranteed Allocation product will be required to have the same index allocation model on the original and the converted contract in order to request subsequent conversions.

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. XSM 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. XSM is issued on base contract form NA1015A/ICC21-NA1015A or appropriate state variation including all applicable endorsements and riders.