

## ALLIANZ 222+™ ANNUITY

# A Roth IRA conversion strategy for tax-free guaranteed lifetime income

If you have qualified funds in your retirement portfolio and are concerned about future tax law changes, it's possible that you, your tax advisor, and your financial professional (professional team) have discussed converting those eligible funds to a Roth IRA.<sup>1</sup>

### WHAT MAKES TRADITIONAL IRAS DIFFERENT FROM ROTH IRAS?

Traditional IRAs are usually funded with before-tax dollars and are generally fully taxable when withdrawn. The owner of a traditional IRA generally has required minimum distributions (RMDs) beginning at age 73. If withdrawals are taken before age 59½, they may be subject to a 10% federal additional tax.

**Roth IRAs are funded only with after-tax dollars.**

Roth IRAs, on the other hand, are funded only with after-tax dollars. Distributions after age 59½ are completely income-tax-free as long as the Roth IRA owner has met a five-year requirement, determined by the date the owner first funded any Roth IRA. No required minimum distributions apply during the owner's lifetime, but certain RMD rules do apply to Roth IRA beneficiaries.



**Must be accompanied by the Allianz 222+™ Annuity consumer brochure (222PL-001) or appropriate variations.**

<sup>1</sup> Converting an employer plan account or traditional IRA to a Roth IRA is a taxable event. Increased taxable income from the Roth IRA conversion may have several consequences including (but not limited to) a need for additional tax withholding or estimated tax payments, the loss of certain tax deductions and credits, and higher taxes on Social Security benefits and higher Medicare premiums. Be sure to consult with a qualified tax advisor before making any decisions regarding your IRA. Please note that Allianz Life Insurance Company of North America (Allianz), its affiliated companies, and their representatives and employees do not give legal or tax advice. You are encouraged to consult your tax advisor or attorney.

It is generally preferable that you have funds to pay the taxes due upon conversion from funds outside of your IRA. If you elect to take a distribution from your IRA to pay the conversion taxes, please keep in mind the potential consequences, such as an assessment of product withdrawal charges or additional IRS penalties for premature distributions.

Any transaction that involves a recommendation to liquidate a securities product, including those within an IRA, 401(k), or other retirement plan for the purchase of an annuity or for other similar purposes, can be conducted only by individuals currently affiliated with a properly registered broker/dealer or registered investment adviser. If your financial professional does not hold the appropriate registration, please consult with your own broker/dealer representative or investment adviser representative for guidance on your securities holdings.

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## WHAT IS A ROTH IRA CONVERSION?

If you currently own a traditional IRA, you can convert all or a portion of those qualified funds to a Roth IRA instead. This also applies to pre-tax funds in a qualified plan such as a 401(k). When you convert from a traditional IRA or qualified plan, **you owe income taxes on the amount converted in the year of the conversion.** At the time of the conversion, it is generally preferable to pay these taxes with funds outside of the IRA or qualified plan.

### What are the advantages of a Roth IRA conversion?

- Qualified distributions from Roth IRAs are income-tax-free.
- Unlike the case for a qualified retirement plan such as a 401(k), there is no mandatory 20% withholding for Roth IRA distributions.
- There are no required minimum distributions (RMDs) for Roth IRA owners, but certain rules do apply to Roth IRA beneficiaries.
- Roth IRA conversions are not subject to a 10% federal additional tax, though the amount converted is subject to ordinary income tax.
- Conversion may be preferable if the income tax bracket is projected to be the same or higher at the time of distribution than at the time of conversion. A Roth IRA conversion could lower your income tax bracket in the future, since qualified distributions from a Roth IRA are income-tax-free.

### What are the disadvantages of a Roth IRA conversion?

- Roth IRA conversions are subject to ordinary income tax on the entire amount you convert.
- When converting a traditional IRA annuity, the taxable amount of conversion may be larger than expected.
- Distributions from the traditional IRA or qualified plan may be needed to pay the taxes due at conversion.
- Distributions may be subject to the 10% federal additional tax if removed within five years of the conversion.
- Conversion may not be preferable if the income tax bracket is projected to be lower at the time of distribution than at the time of conversion.



## CONVERT YOUR IRA FUNDS TO A ROTH IRA AT ALLIANZ

If you and your professional team agree that converting all or a portion of your eligible qualified funds to a Roth IRA makes sense for your financial and income tax strategy, then using a fixed index annuity (FIA) from Allianz Life Insurance Company of North America (Allianz) may also make sense.

In addition to traditional FIA benefits, such as indexed interest growth potential, principal and credited interest protection from market downturns, and a death benefit for beneficiaries, Allianz® FIAs with an income withdrawal benefit help create an income stream you can't outlive – and because it's a Roth IRA, you would not pay any income tax when qualified distributions occur.

**To help illustrate how converting qualified funds into a Roth IRA annuity can help reduce your future tax liability, let's look at a hypothetical example:**



### MEET LEE

Lee is 55 years old and is planning to retire at age 65.

He is currently in a 24% tax bracket and is concerned that future tax law changes could put him in a higher bracket during retirement. In addition to his tax concerns, Lee would also like to protect some of his retirement savings from market risk while maintaining an opportunity for accumulation.

Lee meets with his professional team to discuss his tax concerns and his need for principal protection. After carefully reviewing the advantages, disadvantages, and special rules involved with Roth IRAs – as well as the advantages and disadvantages of an Allianz® FIA – Lee's financial professional recommends purchasing an Allianz 222+™ Annuity with \$100,000 of his qualified dollars currently designated as a traditional IRA. Her recommendation is based on the amount of qualified dollars in Lee's retirement portfolio, his 10-year timeline until retirement, and the features and benefits Allianz 222+™ offers.

**Lee's financial professional explains that Allianz 222+™ can help in both the accumulation phase and**

**income phase of his retirement by providing guaranteed lifetime income withdrawals, protection of principal from market downturns, and potential indexed interest. Going one step further, Allianz 222+™ gives Lee a premium bonus, an interest bonus which will result in a credit of 150% of any interest earned from his chosen allocations, and potential income increases.<sup>1</sup>**

With a Roth IRA conversion, Lee will pay ordinary income taxes on the amount converted at his current tax rate of 24%. By doing so, the qualified income distributions Lee receives from Allianz 222+™ during retirement will be income-tax-free. Keep in mind, the funds used for conversion may have a higher level of liquidity than the annuity.

Lee decides to do a direct conversion of \$100,000 from his traditional IRA funds to an Allianz 222+™ Annuity designated as a Roth IRA. By converting \$100,000 of his traditional IRA funds, he is subject to a federal income tax bill of \$24,000. Lee uses nonqualified funds from other sources to cover the tax bill.

Assuming an average annual interest credit of 3% from Lee's chosen index allocations, a 45% PIV premium bonus and 150% interest bonus factor credited to the contract's Protected Income Value (PIV), Lee's initial premium of \$100,000 accumulates to \$225,181 after 10 contract years. Because of the annual 150% interest bonus factor, the average annual credit to the contract PIV is 4.50% ( $3\% \times 150\% = 4.5\%$ ). The guaranteed PIV, assuming 0% interest over the 10 contract years, would be \$145,000 (\$100,000 initial premium + \$45,000 premium bonus = \$145,000).

Lee lets his Allianz 222+™ Annuity Roth IRA accumulate for 10 contract years, until he's ready to retire. At age 65, he begins receiving lifetime withdrawals based on the Protected Income Value (PIV) of his Allianz 222+™ contract. **Even after withdrawals begin, Lee's income payments have the opportunity to increase each year based on any indexed or fixed interest from the allocations he has chosen, plus the 150% interest bonus factor credit.**

<sup>1</sup> The premium bonus and interest bonus are credited only to the Protected Income Value (PIV). To receive the PIV, including the value of these bonuses, the contract must be held for at least 10 contract years and then lifetime withdrawals must be taken between the ages of 60 and 100. The PIV is not available as a lump sum. Clients will not receive these bonuses if the contract is fully withdrawn or if traditional annuity payments are taken. If the client takes any type of withdrawal the PIV will be reduced proportionally. Withdrawals are subject to ordinary income tax and, if taken prior to age 59½, a 10% federal additional tax. Bonus annuities may include higher withdrawal charges, longer withdrawal charge periods, lower rates, or other restrictions that are not included in similar annuities that do not offer a bonus feature.

## LOOKING TO THE FUTURE, SUPPOSE LEE HAS RECEIVED 20 YEARS OF INCOME FROM HIS ALLIANZ 222+™ ANNUITY. DID THE ROTH IRA CONVERSION REDUCE LEE'S TAX OBLIGATION?

As you can see from this chart, after 20 contract years of receiving income withdrawals and assuming Lee remains in the 24% tax bracket, he would have saved over \$91,000 in federal income taxes.

Deducting for the initial \$24,000 of income taxes paid at the time of conversion, Lee has a net tax savings.

### Roth IRA Direct Conversion into Allianz 222+™ Annuity

Federal income tax paid:<sup>1</sup> \$24,000

Allianz 222+™ initial premium: \$100,000 at age 55

**A** Protected Income Value at age 65 assuming 3% interest: \$225,181

Age	Lifetime withdrawal assuming 3% interest <sup>2</sup>	Income tax paid	Federal income taxes not paid assuming 24% tax bracket
65	<b>B</b> \$11,259	\$0	\$2,702
66	\$11,766	\$0	\$2,824
67	\$12,295	\$0	\$2,951
68	\$12,848	\$0	\$3,084
69	\$13,427	\$0	\$3,222
70	\$14,031	\$0	\$3,367
71	\$14,662	\$0	\$3,519
72	\$15,322	\$0	\$3,677
73	\$16,011	\$0	\$3,843
74	\$16,732	\$0	\$4,016
75	\$17,485	\$0	\$4,196
76	\$18,272	\$0	\$4,385
77	\$19,094	\$0	\$4,583
78	\$19,953	\$0	\$4,789
79	\$20,851	\$0	\$5,004
80	\$21,789	\$0	\$5,229
81	\$22,770	\$0	\$5,465
82	\$23,795	\$0	\$5,711
83	\$24,865	\$0	\$5,968
84	\$25,984	\$0	\$6,236
85	\$27,154	\$0	\$6,517
<b>C</b> Total income \$380,365		<b>D</b> Total taxes not paid \$91,288	

Federal income taxes not paid on income: \$91,288

Federal income tax paid to convert: \$24,000

Net tax savings: \$67,288

#### **A** PROTECTED INCOME VALUE

The Roth IRA conversion assumes an average annual interest credit of 3% from Lee's chosen index allocations, a 45% premium bonus and 150% interest bonus factor credited to the contract's Protected Income Value (PIV).

Because of the annual 150% interest bonus factor, the average annual credit to the contract PIV is 4.50% ( $3\% \times 50\% = 1.5\%$ ;  $3.0\% + 1.5\% = 4.5\%$ ).

With these assumptions, Lee's PIV grew to \$225,181 after 10 contract years.

Lee understands that the PIV is designed for lifetime withdrawals and not available to him as a lump sum. The accumulation value of the contract, the value that doesn't include bonuses, accumulates to \$134,392 and would be available to Lee as a lump sum after 10 contract years.

#### **B** ANNUAL INCOME

The starting income amount is determined by multiplying the PIV by the payout rate, which varies by age. At age 65, Lee will have a payout rate of 5.00% ( $\$225,181 \times 5.00\% = \$11,259$ ).

#### **C** TOTAL INCOME

The total amount of projected income Lee received over the 20-year period.

#### **D** QUALIFIED INCOME AND TAXES

Distributions from Lee's Roth IRA are distributed income-tax-free, so Lee paid \$0 in taxes for the total amount of income received over the 20 years. Assuming a 24% tax bracket, by converting, Lee saved over \$91,000 in taxes. His net tax savings is \$67,288 after deduction of the \$24,000 he paid in taxes.

<sup>1</sup> State and local income taxes may also apply.

<sup>2</sup> This hypothetical example uses an annual 3% return. It is highly unlikely, if not improbable, that any investment or annuity would earn a constant rate year over year, which could affect the projected scenarios favorably or unfavorably. The interest bonus is only credited in years when there is a positive interest credit.

**THIS HYPOTHETICAL TABLE DISPLAYS THE TAX SAVINGS IF NO INTEREST WAS CREDITED TO THE ALLIANZ 222+™ ANNUITY.**

## Roth IRA Direct Conversion into Allianz 222+™ Annuity

Federal income tax paid:<sup>1</sup> \$24,000

Initial premium: \$100,000 at age 55

**A** Protected Income Value at age 65 assuming 0% interest: \$145,000

Age	Lifetime income withdrawal assuming 0% interest	Income tax paid	Federal income taxes not paid assuming 24% tax bracket
65	<b>B</b> \$7,250	\$0	\$1,740
66	\$7,250	\$0	\$1,740
67	\$7,250	\$0	\$1,740
68	\$7,250	\$0	\$1,740
69	\$7,250	\$0	\$1,740
70	\$7,250	\$0	\$1,740
71	\$7,250	\$0	\$1,740
72	\$7,250	\$0	\$1,740
73	\$7,250	\$0	\$1,740
74	\$7,250	\$0	\$1,740
75	\$7,250	\$0	\$1,740
76	\$7,250	\$0	\$1,740
77	\$7,250	\$0	\$1,740
78	\$7,250	\$0	\$1,740
79	\$7,250	\$0	\$1,740
80	\$7,250	\$0	\$1,740
81	\$7,250	\$0	\$1,740
82	\$7,250	\$0	\$1,740
83	\$7,250	\$0	\$1,740
84	\$7,250	\$0	\$1,740
85	\$7,250	\$0	\$1,740
<b>Total income</b>		<b>Total taxes not paid</b>	
<b>C</b> \$152,250		<b>D</b> \$36,540	

**A** **PROTECTED INCOME VALUE**

With an annual interest assumption of 0% and no 150% interest bonus factor, the contract's Protected Income Value (PIV) equals \$145,000 after 10 contract years (\$100,000 + \$45,000 premium bonus = \$145,000).

**B** **ANNUAL INCOME**

The annual income is calculated by multiplying the payout rate of 5.00% by the \$145,000 PIV to equal \$7,250.

**C** **TOTAL INCOME**

The total income paid to Lee using a 0% interest assumption.

**D** **QUALIFIED INCOME AND TAXES**

Lee's total taxes not paid in this scenario are over \$36,000. His net tax savings after the deduction of the \$24,000 tax payment is \$12,540.

**Federal taxes not paid on income: \$36,540**

**Federal income tax paid to convert: \$24,000**

**Net tax savings: \$12,540**

<sup>1</sup> State and local income taxes may also apply.

This is not intended to project or predict future results. The potential index credits shown are hypothetical. Actual caps or participation rates that could have been applied during each time period would have been different from those shown, and in some cases significantly higher or lower depending on a number of factors, including market conditions. With the purchase of any additional-cost riders, the contract's values will be reduced by the cost of the rider. This may result in a reduction of your principal in any year in which the contract does not earn interest or earns interest in an amount less than the rider charge.

The hypothetical examples use an annual 0% return. It is highly unlikely, if not improbable, that any investment or annuity would earn a constant rate year over year, which could affect the projected scenarios favorably or unfavorably.

Although an external index may affect your interest credited, the contract does not directly participate in any equity or fixed income investments. You are not buying shares in an index. The index value does not include the dividends paid on the equity index. These dividends are not reflected in the interest credited to your contract.



BUT WHAT IF LEE DECIDED NOT TO CONVERT TO A ROTH IRA?

The hypothetical example we presented assumed Lee converted \$100,000 from a traditional IRA to a Roth IRA resulting in a net tax savings, but required him to pay \$24,000 in taxes at the time of conversion. To contrast and compare, let’s look at Lee’s example using \$100,000 assumed to be in an investment account.

To help with the comparison, the assumed interest, tax bracket, and income withdrawal amounts will remain the same. In this scenario, Lee pays over \$37,000 in taxes before the account value runs out of funds after 11 years. Compare this to the Allianz 222+™ scenario, where Lee has a net tax savings and the income continues for his lifetime with the opportunity to increase.

ADDITIONAL FLEXIBILITY WITH ALLIANZ

In addition to offering direct Roth IRA conversions, Allianz also offers the flexibility of partial conversions over time. In this scenario, Lee would have transferred the \$100,000 traditional IRA to Allianz. He would then have completed partial conversions over time (for instance, annually). He would need to be aware that the taxable amount of each partial conversion would likely be more than the amount actually converted.

If Lee wants to take income-tax-free (qualified) distributions from the Roth IRA, he must meet a five-year requirement, determined by the date the owner first funded any Roth IRA, and be at least age 59½ or meet another requirement.

If Lee does not want to be subject to the 10% additional federal tax on distributions before age 59½, he must wait for five years after each conversion to take a distribution that includes that conversion. Distributions from Roth IRAs are considered to come first from contributions to Roth IRAs, then from taxable conversions to Roth IRAs, and last from earnings.

Doing partial Roth IRA conversions provides the benefit of spreading out the tax burden over time versus paying the tax in one lump sum. Allianz offers either full or partial Roth IRA conversions for your convenience.

The hypothetical examples use an annual 3% return. It is highly unlikely, if not improbable, that any investment or annuity would earn a constant rate year over year, which could affect the projected scenarios favorably or unfavorably.

The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact individual results.

Distributions are subject to ordinary income tax and, if taken before age 59½, a 10% federal additional tax may apply.

Guarantees are backed solely by the financial strength and claims-paying ability of Allianz Life Insurance Company of North America.

Products issued by Allianz Life Insurance Company of North America, PO Box 59060, Minneapolis, MN 55459-0060. 800.950.1962 [www.allianzlife.com](http://www.allianzlife.com)

This content does not apply in the state of New York.

Product and feature availability may vary by state and broker/dealer.

Investment account IRA

24% tax bracket

Investment account balance: \$100,000 at age 55

Investment account balance at age 65 assuming

3% interest (net of fees): \$134,392

Age	Investment Account Value assuming 3% growth	Equivalent withdrawals	Income taxes paid on qualified income
65	\$134,392	\$11,259	\$2,702
66	\$126,827	\$11,766	\$2,824
67	\$118,513	\$12,295	\$2,951
68	\$109,404	\$12,848	\$3,084
69	\$99,452	\$13,427	\$3,222
70	\$88,607	\$14,031	\$3,367
71	\$76,813	\$14,662	\$3,519
72	\$64,015	\$15,322	\$3,677
73	\$50,154	\$16,011	\$3,843
74	\$35,167	\$16,732	\$4,016
75	\$18,988	\$17,485	\$4,196
76	\$1,548	\$1,548	\$372
77	\$0	\$0	\$0
78	\$0	\$0	\$0
79	\$0	\$0	\$0
80	\$0	\$0	\$0
81	\$0	\$0	\$0
82	\$0	\$0	\$0
83	\$0	\$0	\$0
84	\$0	\$0	\$0
85	\$0	\$0	\$0
Total income		Total taxes paid	
\$157,386		\$37,773	

Taxes paid: \$37,773  
Federal income tax paid to convert: \$0  
Net tax savings: \$0



Should you consider a Roth IRA conversion?  
Contact your tax advisor and financial professional to learn more about Roth IRAs and the options available for your own situation.