

# Lincoln Individual Annuities

## Roth IRA conversions: frequently asked questions (FAQ)

Refer to IRS Publication 590 for limits and restrictions. Clients should seek advice from their tax advisor regarding their specific situation.

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### Background

1. **What is a Roth conversion?**

A Roth conversion is taking all or part of the balance of an existing Traditional IRA (tax deferred) and moving it into a Roth IRA (taxed right away). This document addresses:

- FULL conversions from an existing Lincoln Traditional IRA annuity to a Lincoln Roth IRA – by changing the tax status of the existing contract, and
- PARTIAL conversions (a withdrawal) from an existing Lincoln Traditional IRA annuity to a Lincoln Roth IRA by opening up a new annuity for the Roth portion.
- Variable annuities (including indexed variable annuities, where applicable), fixed indexed annuities and fixed annuities.

### Traditional and Roth IRA questions and answers

2. **What is the tax treatment of the converted amount?**

The converted amount is treated as a distribution from the Traditional IRA (reported on Form 1099-R) and a qualified rollover contribution to the Roth IRA (reported on Form 5498 as a Roth conversion).

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3. **Does the “one-rollover-per-year” rule apply to a Roth Conversion?**

No. The one-rollover-per-year rule does not apply to the distribution from the Traditional IRA that is converted to a Roth IRA. (i.e. if an individual already rolled over one distribution from a Traditional IRA to another Traditional IRA within 365 days, he may still convert to a Roth IRA).

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4. **Can a required minimum distribution (RMD) be converted to a Roth IRA?**

No. Traditional IRA required minimum distributions may not be converted to a Roth IRA.

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5. **Can a non-spouse beneficiary of a Traditional IRA convert the inherited IRA to a Roth IRA??**

No. A non-spouse beneficiary of a Traditional IRA may not convert the inherited Traditional IRA to a Roth IRA. [Ref Treasury Regulation 1.408A-4 and Internal Revenue Code Section 408(d)(3)(C)]

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6. **Do the converted amounts impact the ROTH contribution limits?**

No. Amounts converted do not count towards the annual Roth IRA contribution limit.

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7. **After conversion, can *iALIFE* be elected pre-59½ on the Roth IRA?**

No. The minimum election age for the Roth IRA is the same as for the Traditional IRA, over age 59½.

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## SEPs and SIMPLE IRAs

### 8. Can an individual convert a SEP IRA or a SIMPLE IRA to a Roth IRA?

Individuals may convert SEP IRAs and SIMPLE IRAs to Roth IRAs. However, if an individual takes a distribution from a SIMPLE IRA within the first two years of the plan, the distribution is not a qualified rollover contribution and may not be converted to a Roth IRA.

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## Full Conversions: questions and answers

### 9. Does a full conversion of an existing Lincoln Traditional IRA to a Lincoln Roth IRA require a new application?

No. A full conversion of an existing Lincoln Traditional IRA annuity to a Lincoln Roth IRA is executed by changing the tax status of the existing contract. The contract provisions remain the same.

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### 10. Does a full conversion require another suitability review?

No. We would not review suitability on the Roth IRA contract where we are converting the funds from a Traditional IRA and opening the second contract as a Roth IRA.

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### 11. Do surrender charges apply to a ROTH IRA conversion when the entire annuity amount is being converted?

No. Surrender charges (and any Market Value Adjustment (MVA)) do not apply to full Roth conversions provided the funds are staying within the same contract at Lincoln. Should the client close the entire contract and move the funds to another Roth account, surrender charges/MVA would apply.

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### 12. What are the impacts of a full conversion on an annuity with a guaranteed withdrawal benefit rider?

Living benefit riders and death benefits will not be impacted by a full conversion to a Roth IRA. For the Roth conversion, only the tax status of the existing contract is changed.

Note: in order for it to be considered a full conversion they cannot use funds from the IRA to pay for the taxes.

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### 13. What are the impacts of a full conversion on an annuity with an *i4LIFE*<sup>®</sup> Advantage rider (variable annuity) or *i4LIFE*<sup>®</sup> Indexed Advantage rider (fixed indexed annuity)?

If *i4LIFE*<sup>®</sup> Advantage or *i4LIFE*<sup>®</sup> Indexed Advantage has been elected with the contract, a full conversion will be considered a termination of the current contract and the current *i4LIFE* payout option. A new contract and new *i4LIFE* election is required. This means that the *i4LIFE* Payment and the GIB are recalculated.

- Changes from single to joint life or joint to single life contracts can also occur when converting to a Roth IRA with *i4LIFE*<sup>®</sup> Advantage.
- The tax exclusion ratio will change with the new contract.
- The death benefit is also reset and surrender charges may restart.
- Surrender charges and MVA may apply upon the conversion.

Note: in order for it to be considered a full conversion they cannot use funds from the IRA to pay for the taxes.

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### 14. What are the impacts to the death benefit?

Any withdrawals will reduce the death benefit on either a pro-rata or dollar-for-dollar basis, determined by rider and contract provisions.

Note: A partial conversion will be considered a withdrawal on the contract for purposes of the death benefit and living benefit rider.

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## Partial Conversions: questions and answers

15. **Does a Roth IRA conversion (partial conversion) require a new application?**

Yes, for partial conversions, since we cannot co-mingle Traditional IRA and Roth funds, a second contract has to be opened.

A new application must be submitted for the new Roth IRA contract (unless the conversion is going into an existing Roth IRA). Maximum issue age rules and minimum purchase payment rules apply to the opening of the new contract.

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16. **Do surrender charges apply when converting part of an existing variable annuity (partial conversion) to a ROTH IRA?**

Surrender charges will be waived on the withdrawal from the original contract and the conversion amount can be transferred into a new contract of the same share class. Products with upfront sales loads, A-Share, would not incur a new upfront sales charge. Any trail commissions from the compensation option for all share classes paid on the original contract would continue under the new contract, but no upfront commissions would be paid on the new contract.

- For partial conversions on contracts out of the surrender charge period, the conversion amount can transfer to the internal replacement B-Share. Internal B-share compensation will be paid.
- For an indexed variable annuity: Any transfer from an indexed account will be at the interim value.

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17. **Do surrender charges apply when converting part of an existing fixed or fixed indexed annuity (partial conversion) to a ROTH IRA?**

Surrender charges and the Market Value Adjustment (MVA) will be waived on the withdrawal from the original contract and the conversion amount can be transferred into a new contract. The new fixed annuity contract will start a new surrender schedule.

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18. **What are the premium considerations for a new ROTH IRA fixed indexed annuity?**

In general, the first conversion (initial premium) that opens the Roth IRA contract should be used to convert the desired amount of the conversion.

- For single premium contracts, no additional premium can be accepted.
- For flexible premium contracts: Consecutive years after, the client will be restricted to a \$25,000 annual limit due to the additional premium rules of the contract. Total cumulative additional premiums after the first year are limited to \$100,000 (without prior Home Office approval).
  - If the client knows ahead of time that they will want to convert more than \$25,000 annually, they may want to consider opening a second or third contract at the same time. Each year thereafter, the client can then convert the amount desired from each contract (so long as it is within the annual maximum deposit amount).

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19. **When I do a partial ROTH conversion, what happens to the Indexed Accounts in an indexed variable annuity?**

- Upon a partial conversion, the Crediting Base for each Indexed Account for the existing contract is reduced pro-rata as it's considered a withdrawal.
- For the new contract, the Indexed Accounts will be effective on the new contract's effective date based upon the allocation instructions.
  - Any additional purchase payments may not be invested into an Indexed Account until an Indexed Anniversary Date.

## Partial Conversions: *continued*

### 20. What are the impacts of a partial conversion on an annuity with a living benefit rider?

A partial conversion of an existing annuity will be considered a withdrawal from the current contract and a deposit into a new or existing Roth IRA contract. The withdrawal from the existing contract will impact the rider values like any other withdrawal would, and there is no special treatment under the rider because it is a Roth conversion.

- If a withdrawal exceeds the withdrawal amount provided under the rider, it will be treated as an excess withdrawal according to the rider provisions. Future rider values may be reduced. Excess withdrawals are treated differently depending on what living benefits are elected on the contract.
- Refer to the specific living benefit rider for withdrawal provisions.

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