Partial Roth Conversion FAQs

Clients looking for more control over when and how much they pay in taxes have an option: converting their Knighthead Life fixed indexed annuity—partially or gradually—into a Roth IRA. Partial Roth conversions are currently available on Chartline & Chartline Bonus, with a MYGA option to follow.

The FAQs below can help you put this strategy into action for suitable clients. The information provided is for general informational purposes only and is not intended as legal or tax advice. Clients should consult their financial, legal, or tax advisor before proceeding with a Roth conversion.

Q: What is a partial Roth conversion (PRC)?

A: A PRC is the process of converting a fully taxable IRA (SEP or Traditional) into a non-taxable Roth IRA over time, rather than all at once. It gives the owner more control over when taxes are paid — either incrementally, on each partial conversion amount, or later, when the money is withdrawn as retirement income.

Q: What Knighthead Life products can be converted via a PRC?

A: PRC is available for Knighthead Life's fixed indexed annuities, Chartline and Chartline Bonus.

Q: How flexible is the PRC program?

A: The PRC program is built around flexibility. Annuity owners choose when to convert and how much to convert, with a $10,000 minimum per conversion, limited to one partial conversion per contract year.

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

A: The new contract mirrors the original in every respect except tax qualification, carrying over the same:

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

Once conversion is complete, the two contracts operate independently, with their own contractual provisions, including beneficiaries, transfers, withdrawals, and additional premiums. This Converted Roth Contract is not treated as a replacement.

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

A: If the account owner wants to keep systematic withdrawals going on both contracts, they'll need to submit a new systematic withdrawal form for the Converted Roth Contract. Please note that the IRS has 2 separate 5-year rules that determine if earnings are tax free or if withdrawals of principal are tax free. Please consult your tax advisor for more details.

Q: Does every conversion event result in an additional Converted Roth Contract?

A: No. At most, two contracts will be active at any time: the original contract (Qualified) and the Converted Roth Contract. The converted money simply moves from one contract to the other.

Each conversion pulls a proportional share of value out of the original contract and credits it to the Converted Roth Contract, calculated against the gross amount converted. That proportional treatment carries through to related figures as well: Minimum Guaranteed Contract Value, free withdrawal amounts, and, where applicable, the minimum interest guarantee or premium bonus. The original contract is in force until terminated in accordance with its terms.

If you convert the entirety of the contract value, the original contract will eventually be terminated. At that point, only the Converted Roth Contract will generate an annual statement. No further statements will be generated for the original contract.

Q: What about tax withholding?

A: A partial Roth conversion generates two tax forms:

Form 1099 — reports the taxable amount distributed from the IRA, including any federal or state tax withheld.

Form 5498 — reports the amount that was contributed to the Roth IRA.

Separately, a five-year holding period applies, starting from the date the first converted funds are deposited into the Roth IRA. Tax-free distributions require both this five-year period to be satisfied and the owner to have reached age 59½. Distributions taken before those conditions are met are still reportable, but not taxable, provided IRS rules have otherwise been followed.

Knighthead will perform the tax withholding at the time of conversion, generating a Form 1099R for your client, including any withholding they request.

For Chartline and Chartline Bonus, tax withholding is subject to 10% free withdrawal rules after the first contract year. The amount withheld will reduce the amount in the Roth account.

For example: If an annuity owner converts $50,000 and withholds 15%, or $7,500, for taxes, the new converted Roth account value will be $42,500.

Q: Will the owner be sent a new contract?

A: No new contract is issued. The owner will instead receive a confirmation letter documenting the conversion, which will include the new contract number.

Q: How many annual statements will be generated?

A: Two statements will be generated annually. One statement for the original contract and one for the Roth contract.

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

A: Timing often comes down to two factors: RMDs and tax bracket.

Most retirement accounts require RMDs beginning at the owner's Required Beginning Date, which is the date set by the IRS when an account owner must begin withdrawing funds from qualified retirement accounts. Roth IRAs are the exception—living owners aren't subject to RMDs, and funds can remain in the account indefinitely without penalty (heirs may be subject to different rules). For suitable clients, converting some or all of a traditional IRA to a Roth before that Required Beginning Date can avoid RMDs altogether on the converted amount.

The owner's current tax bracket matters too. Converting while in a lower bracket means paying tax on the conversion now, at a lower rate, rather than later

Consult a tax professional for guidance specific to the client's situation.

Q. What if my client needs to take a Required Minimum Distribution (RMD) before completing a PRC?

A: If the annuity owner is subject to RMD rules, that year's RMD generally has to be paid prior to a partial Roth conversion.. RMD amounts aren't eligible for conversion. Clients should confirm their specific RMD obligations with a tax advisor before requesting a conversion.

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

A: No. Amounts moved to the Converted Roth Contract are not subject to commissions or bonuses.

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

A: Trails continue on both contracts, calculated separately based on each contract's account value.

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Withdrawals may be subject to a Withdrawal Charge and, if applicable, a Market Value Adjustment. Taxes are due upon withdrawal, and the IRS may impose a 10% additional tax on withdrawals before age 59½.

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