



## A Predictable Income Strategy Using an IRA

Predictable retirement income may improve retirees' confidence. For many, the largest asset they have is a traditional IRA. Did you know this "spend down" asset can be a vehicle for creating retirement income that can meet differing client needs through annuitization?

You have likely helped clients save for retirement, but they still might not be confident spending that money to live life the way they envisioned. We've answered some questions in the following paragraphs about how they can use their IRAs as a vehicle for predictable income that might improve confidence.

### Why Are Traditional IRAs Considered a "Spend Down" Asset?

The IRS requires that IRA owners begin distributions by age 73 (with limited exceptions). Because the Setting Every Community Up for Retirement Enhancement (SECURE) Act limited stretch IRAs to 10 years for designated beneficiaries, more retirees may be inclined to use their IRAs for income and designate capital (stepped-up basis) assets as a legacy for beneficiaries.

### Three Questions to Help Determine if Annuitization Might Work for a Client

#### 1. Is the need for income temporary or permanent?

Annuitization can be set up to meet different income needs. For life or over two lives (joint)? It can do either. For a certain period of time? It can do that too. The most popular annuity income options are Life Only, Joint Life with Period Certain, or Joint Life with Cash Refund. Which option to use depends on the need.

#### ■ Bridge strategy for temporary income need.

Individuals who want to delay claiming Social Security retirement benefits can utilize a Period Certain annuity income option to bridge the gap between retirement and the time they claim their benefits.

- **Permanent income need.** Clients with a permanent income gap might prefer a life payout option. Life Only or Joint Life with Period Certain as well as Life Only or Joint Life with Cash Refund allow the client to have lifetime income and assure that beneficiaries receive any undistributed amounts.

Caution: Most non-spousal beneficiaries must receive all assets by the end of the tenth calendar year after the year of the owner's death. The insurance company custodian may have limits on non-spousal joint annuitization options.

2. **What is the client's tax situation?** Annuity income payments from non-Roth accounts typically result in ordinary income to the IRA or qualified account owner. Generally, this means there is a known taxable amount each year, which may be helpful for clients who want a more predictable 1099. In addition, clients may be able to elect withholding and eliminate the need for quarterly estimated tax payments.

3. **How might the payments affect required minimum distributions (RMDs)?** As of 2024, the SECURE Act 2.0 allows excess distribution amounts to satisfy a portion of the RMD on non-annuitized IRAs. What does this mean when a client annuitizes only a portion of the IRA assets? In that case, the annuitized stream of payments addresses the RMDs for the annuitized assets. If there are other traditional IRAs or qualified accounts, RMDs are required from those accounts. For example:

- Sarah has a gap between the amount needed to cover monthly expenses and her Social Security retirement benefit income.

- She annuitizes 20% of her IRA to create predictable income to cover the gap.
- The 20% annuitized amount will be included in any RMD calculations because it has been distributed from the account.
- The payments from the annuitized portion likely will be greater than the RMD for the annuity portion based on fair market value (FMV) calculations. The excess withdrawal can be used to offset the RMD on the remaining deferred account, potentially reducing the total amount distributed.

### **For QLAC Owners, an Additional Opportunity**

An opportunity may exist for owners of qualified longevity annuity contracts (QLACs) once the QLAC income commences. At that point, you and your clients should have a good idea about whether their portfolios have underperformed or overperformed. If the portfolio underperformed, the client might be relieved to get the QLAC payments due to the remaining portfolio not being enough to satisfy income requirements. If the portfolio has overperformed, the client may want to position the IRA for legacy purposes. The QLAC payments can reduce overall withdrawals from remaining retirement account balances based on how much of the QLAC payment exceeds the RMD.

### **Offer Clients Strategies for Predictable Income**

While annuities offer many options for creating predictable income, an annuitization strategy can work in some situations. Using the three questions outlined in this article may help you determine if annuitizing a portion or all of a traditional IRA to create income would meet a client's needs.

### **ACTIONS YOU CAN TAKE RIGHT NOW**

- **Review clients who have previously annuitized their IRAs.**
- **Look to create more guaranteed income for those who have high portfolio reliance rates for their income needs.**
- **Review the possibility of using a QLAC as a longevity opportunity for both income predictability and legacy preservation.**

## Additional Resources and Links

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[Alliance for Lifetime Income: "License to Spend"](#)

[New Year, New Rules](#)

[Retirement Income Planning](#)

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[RSG@PacificLife.com](mailto:RSG@PacificLife.com) or (800) 722-2333, ext. 3939.**

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