

## Annuitizing a Traditional IRA After the SECURE Act 2.0

Traditional IRAs are spend-down accounts once RMDs are required, and that means they can be a good source for clients' lifetime income. Using annuitization for income, especially after the SECURE ACT 2.0, can help you ensure clients are not fearful and can enjoy their retirement.

For a traditional IRA owner, the required minimum distribution (RMD) rules require taking distributions upon reaching a certain age. That means that by default, the IRA is a source of income in retirement. And after the Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0, annuitizing all, or a portion, of a client's traditional IRA may help the client stabilize, manage, and protect RMDs as well as provide lifetime income.

### What Makes Annuitization a Potentially Viable Strategy?

Whether annuitization is a good strategy for a particular client will depend on specific client needs and circumstances. Let's explore situations where annuitization might be considered.

#### 1. The need or desire for guaranteed lifetime income:

Many clients could be concerned about outliving their retirement income. Knowing there will be lifetime income may ease the fear of not being able to cover necessary expenses. Annuitization can help clients both reduce the risk of running out of income and reduce the risk of needing to adjust their lifestyles downward.

#### 2. The need to stabilize, manage, and protect RMDs:

After the SECURE Act 2.0, there may be an additional reason for some clients to consider annuitizing a portion of a traditional IRA. The Act allows a portion of the annuitized payment to offset any RMDs due from the remaining traditional IRA account. This can help clients accomplish three goals regarding RMDs.

- **Stabilize:** The annuitized portion can create a level payment that helps cover RMD requirements every year. This payment is not affected by market volatility or performance.
- **Manage:** A cadence of level income also can help the client manage his or her cash flow. While the total amount of an RMD will vary, there will always be a base amount providing additional lifetime income. This can help the client by reducing the amount needed from the remaining traditional IRA account, reducing stress on that account.
- **Protect:** An annuitized lifetime income payment paid monthly means the client has monthly income that will last a lifetime. As noted, a lifetime payment can encourage the client to use the cash flow available to maintain, or even improve, a lifestyle.

### How Does Annuitization of a Traditional IRA Work?

A client can annuitize all or a portion of a traditional IRA. Regardless of their motivations, clients often ask one common question regarding annuitizing their traditional IRAs: How will it affect RMDs? Here are two different scenarios.

- **Annuitizing all of the traditional IRA:** This is a straightforward scenario. Generally, once annuitized, the annuity is excluded from the value of the IRA for purposes of calculating RMDs. But if the entire value of the IRA is annuitized, the annuity payments will be assumed to fulfill the RMD amount required going forward. This will be true for the life of the traditional IRA owner.

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- **Partial annuitization of a traditional IRA:** Partial annuitization raises an interesting question, as RMDs usually start as a modest percentage and increase each year. When annuitization is partial, the annuitized portion of a traditional IRA provides levelized annual payments. After the SECURE Act 2.0, this annual payment may be used to cover all or a portion of all RMD requirements; that is, both the requirement for the annuitized payment and the requirement for the remaining traditional IRA funds invested.

Think of it this way: A retiree annuitizes \$300,000 of a \$1,000,000 traditional IRA. Annual RMDs are still required for the remaining \$700,000. The account owner can consider the total RMD required for the value of both accounts and offset that amount by the annuitized payment. This may reduce the distribution needed from the non-annuitized portion. While the IRS needs to provide additional guidance on the specifics of this calculation, a retiree can use a good faith interpretation until then.

### Could Annuitizing an IRA Be Right for Some of Your Clients?

Each client's situation is unique. Some clients may not want or need additional lifetime income. Others may elect to manage RMDs in other ways, such as purchasing a qualified lifetime annuity contract (QLAC) or using qualified charitable distributions (QCDs). It is important for clients to work with legal and tax professionals to determine what might be appropriate. As a financial professional, you have the opportunity to help clients understand the options they might have available. This can benefit both the clients and your business.

#### ACTIONS YOU CAN TAKE RIGHT NOW

- Find clients with traditional IRAs who may benefit from additional lifetime income.
- Determine whether a full or partial annuitization might benefit those clients.
- Schedule time to review the options and help clients achieve improved outcomes.

## Additional Resources and Links

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[Guaranteed Income: A License to Spend<sup>1</sup>](#)

[Annuitizing? Consider Using Your “Spend-Down” Accounts](#)

[The Longevity Lesson from Social Security](#)

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