

# Guide to required income and qualified annuities

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**An annuity can help your clients accumulate retirement assets and provide multiple ways for taking their retirement income – including an option to receive a steady stream of guaranteed income for life. It is important to understand how required minimum distributions (RMDs) work with different types of guaranteed payouts.**

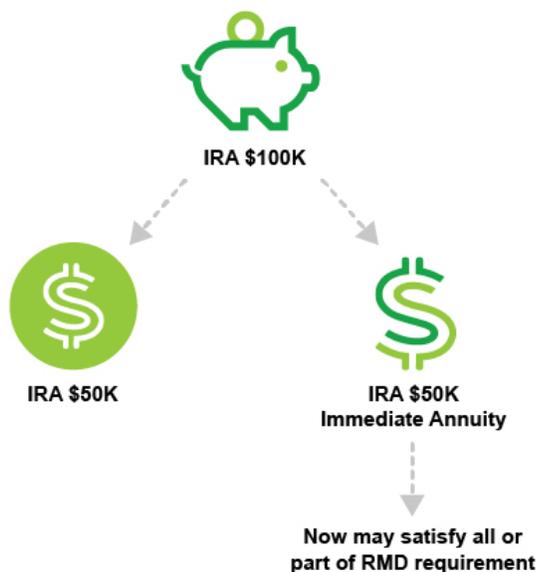
## Understanding RMDs for Immediate Annuities

Prior to the enactment of Secure 2.0 Act of 2022 (Secure 2.0), when using part of an IRA (individual retirement account) to purchase an immediate annuity, the annuity payments would not count towards RMDs for other IRA accounts held by the same individual.

For example, if you had \$100,000 in an IRA, and annuitized \$50,000 of it, you were required to take an RMD from the remaining \$50,000 IRA, despite the annuity payment being made.

Now Secure 2.0 eliminated the RMD penalty effect on partial annuitization so immediate annuity payments now can be used toward satisfying the total RMDs for all IRAs held by the same individual.

## Let's Look at an Example



While Secure 2.0 does not provide specific instruction on how to calculate the value of the immediate annuity, the provision instructs that taxpayers may rely upon a reasonable, good faith interpretation pending final regulations from the IRS. Securian Financial provides the net present value (NPV) at the end of each year for calculation purposes.

## Understanding RMDs for Annuities with Living and Death Benefits

### The “Entire Interest” Rule

The RMD entire interest regulation requires that the actuarial present value (APV) of an annuity’s additional benefits be added to the end of year account value for determining RMDs in all qualified retirement plans. This value is known as the “Entire Interest” Rule. These additional benefits include any enhanced living benefits and/or death benefits that may be provided under the contract.

### How is the RMD calculated?

The RMD equals the sum of the account value of the base contract, plus the APV of additional benefits, divided by the appropriate factor from the IRS Uniform Lifetime Table, as follows:

$$\text{RMD} = \frac{\text{Account Value} + \text{Present Value of Additional Benefits}}{\text{Uniform Lifetime Table factor}}$$

### How does Securian Financial determine the actuarial present value (APV) of an additional benefit?

Each year Securian Financial calculates a factor for each type of additional benefit offered. The factor is then applied to the year-end account value of the annuity contract to determine the APV of each optional benefit. Securian Financial then adds that amount to the base contract value and reports the total sum (i.e. the “Entire Interest”) to the contract holder as the year-end account value on their year-end account statement.

### Exceptions to the “Entire Interest” Rule

- One exception is where the only additional benefit is a return of premium death benefit.
- Another exception is where the total additional benefits are worth 20% or less of account value and are reduced pro rata by distributions.

### Additional Information

You can learn more about this topic by reviewing the information in Q&A 12 of IRS Bulletin 2004-26, beginning on page 1091 (page 13 in the PDF file).<sup>1</sup> You can also find a detailed discussion of this topic on the Society of Actuaries website.<sup>2</sup>

### Securian Financial Support

If you have more questions about this topic, please call our Annuity Sales Desk, Annuity Services, or the Advanced Sales team for assistance: 1-866-335-7355.

<sup>1</sup> <http://www.irs.gov/pub/irs-irbs/irb04-26.pdf>

<sup>2</sup> <https://www.soa.org/Files/Research/Projects/APV-Calculation-combined.pdf>

An annuity is intended to be a long-term, tax-deferred retirement vehicle. Earnings are taxable as ordinary income when distributed, and if withdrawn before age 59½, may be subject to a 10% federal tax penalty. If the annuity will fund an IRA or other tax qualified plan, the tax deferral feature offers no additional value. Qualified distributions from a Roth IRA are generally excluded from gross income, but taxes and penalties may apply to non-qualified distributions. Please consult a tax advisor for specific information. There are charges and expenses associated with annuities, such as surrender charges (deferred sales charges) for early withdrawals. Variable annuities have additional expenses such as mortality and expense risk, administrative charges, investment management fees and rider fees. Variable annuities are subject to market fluctuation, investment risk and loss of principal.

Guarantees are subject to the financial strength and claims-paying ability of the issuing insurance company.

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