



MAKE AN ANNUITY THE WORKHORSE OF YOUR IRA

An annuity with protected lifetime income can be the workhorse in your Individual Retirement Account (IRA), providing guaranteed income regardless of what happens with the markets.

Anyone with an IRA has to start taking annual withdrawals, known as required minimum distributions (RMDs), from their IRA at age 72.* That's because the account grew on a tax-deferred basis and the time is finally here to start taking distributions and paying taxes. Uncle Sam wants you to spend it down.

Every year the percentage you're required to take out keeps growing. That means that both the end-of-year account balance and the income you withdraw keep getting smaller, which could become a real problem in later years—unless you have outsized investment returns.

What if there was a way to guarantee some of that income regardless of what happens

with the markets? Using a portion of your IRA assets to purchase an annuity with a guaranteed lifetime withdrawal benefit will help give you peace of mind.

"Let an annuity be the workhorse in your IRA. Let it be the RMD generator," says Michael R. Harris, a senior educational advisor with the Alliance for Lifetime Income, who holds CFP, CLU and CHFC designations. If you're going to buy an annuity with qualified money in an IRA or 401(k), there are three options that you can consider.

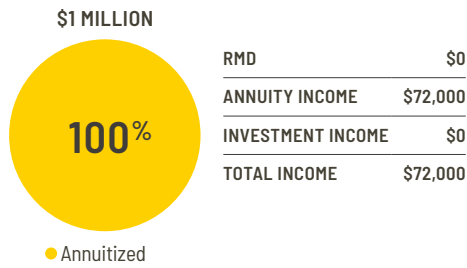
OPTION 1: ANNUITIZE YOUR ENTIRE IRA.

With pure annuitization, you would annuitize the whole thing. Let's look at an example. Say you're a 72-year-old man and you have

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a \$1 million IRA. If you annuitize the whole account, you could get a guaranteed income stream of about \$72,000 a year for the rest of your life.**



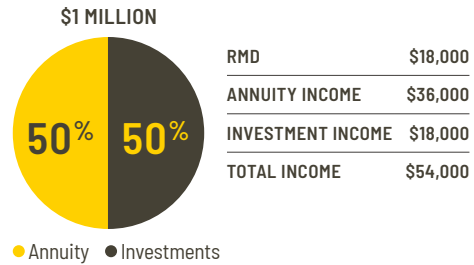
There would be no assets left in your IRA. That means no RMDs to worry about, but nothing to go to your heirs. A 100% annuitization option could make sense for someone who needs as much money as they can get out of their IRA and isn't and for whom leaving money to heirs isn't a priority.

OPTION 2: SPLIT YOUR IRA INTO TWO BUCKETS.

Some people will want to annuitize just a portion of their IRA. With this option, you're splitting your IRA into one side that holds an annuity and another side that holds a diversified investment portfolio. Having the annuity allows you to take out less from the investment side, letting that side have the opportunity grow. "It's putting less income pressure on the investments. That's helpful in up and down markets," Harris says. You can potentially end up with more income and still leave some assets for your heirs.

Let's look at an example. Say you annuitize \$500,000 of your IRA at age 72, and keep the other \$500,000 of the IRA in mutual funds. The income stream from the annuity would be roughly \$36,000 a year. But that \$36,000 doesn't count towards your RMD. In your first year of RMDs, according to IRS tables, you have to take out 3.6% of your IRA balance. The assets that are annuitized are no longer part of the IRA balance. That means you'd

have to take \$18,000 (3.6% of \$500,000) out of the investments in your IRA to meet the RMD requirements. Combined with the annuity income, your income for year one would be \$54,000. By comparison, if you hadn't bought the annuity and had left all \$1 million in investments, your RMD in year one would have been \$36,000 (3.6% of \$1 million).



Two things are happening here: Annuitization creates the possibility to give you more income out of an asset, thanks to age/mortality credits. You potentially give yourself more income while still leaving a portion of your assets—the investment side—that you could pass on to your heirs.

The good news is that the annuitized side is guaranteed. If the markets go down, or if the markets stay rocky and volatile, the annuity acts like the workhorse giving you the income you need, Harris says.

OPTION 3: THE GUARANTEED LIFETIME WITHDRAWAL BENEFIT.

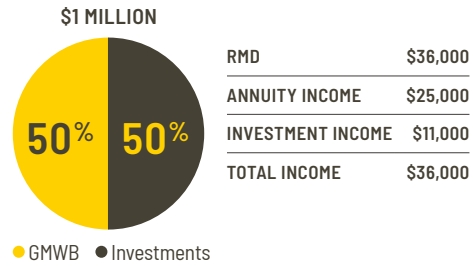
What if you like the idea of getting protected lifetime income with an annuity but don't want to give up control over the amount you annuitize? There's an optional benefit that you can add onto an annuity called a guaranteed minimum withdrawal benefit (GMWB) for life. Some insurance companies call it a guaranteed lifetime withdrawal benefit (GLWB). The portion of your IRA that you choose to put into the annuity with the GMWB benefit remains in the IRA account, so the income it

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generates counts towards your RMD.

Let's go back to the \$1 million IRA example. In year one of your RMDs, you need to take out 3.6% or \$36,000 total. Remember that percentage increases every year. If you choose the GMWB option, you could put \$500,000 in an annuity with a GMWB benefit, paying 5%—that's \$25,000 of income a year. To meet your \$36,000 RMD requirement, you'll need \$11,000 more, which you take out of the \$500,000 on the investment side. You're taking \$11,000 from the investment side, instead of \$18,000 under the Option 2 above. "You're taking less out of that side and leaving more of it to be able to grow; it's putting less income pressure on the non-guaranteed side," Harris says.



If the markets decline and the total IRA value, including the annuity, goes down to \$500,000, the \$25,000 income from the annuity might cover most or all of the RMD, depending on your age and on the RMD requirement at the time. That would mean you might not have to take much if anything out of the investment side. At any point, you could reach into the investment side as needed, or let it sit there for your family or charity.

COMPARISON TABLE	\$1 MILLION IRA: 3 OPTIONS FOR MEETING RMDs		
	OPTION 1	OPTION 2	OPTION 3
	100% ANNUITIZED	50/50 ANNUITY/ INVESTMENTS	50/50 GMWB/ INVESTMENTS
RMD	\$0	\$18,000	\$36,000
ANNUITY INCOME	\$72,000**	\$36,000**	\$25,000
INVESTMENT INCOME	\$0	\$18,000	\$11,000
TOTAL INCOME	\$72,000	\$54,000	\$36,000

TALK WITH A FINANCIAL PROFESSIONAL

Some people say they want to get as much guaranteed income as possible. They might put a higher percentage of their IRA into the annuity/GMWB side. That lets you use the income from the annuity to help meet the RMD requirement, which in turn helps you avoid liquidating investments in down markets. It can get complicated very quickly when we deal with IRAs, says Harris, but a financial professional can walk you through the options.

* A new law passed in 2019 increased the RMD beginning age for IRA owners from age 70 ½ to age 72. If your 70th birthday is July 1, 2019 or later, you don't have to take RMDs until you reach age 72, according to the Internal Revenue Service.

** In January 2021, a 72-year-old man could get a lifetime annuity of \$72,492 a year and a 72-year-old woman could get a lifetime annuity of \$66,696 a year, according to quotes from immediateannuities.com.

Annuities are long-term investments designed for retirement purposes. The value of variable annuities is subject to market risk and will fluctuate. Product guarantees are subject to the claims-paying ability of the issuing insurance company. Earnings, when withdrawn, are subject to federal and/or state income tax, including a 10% tax penalty for withdrawals before age 59½. Some income guarantees offered with annuities take the form of optional riders and carry charges in addition to the fees and charges associated with annuity products.

There is no guarantee that any investment will achieve its objectives, generate positive returns, or avoid losses. Investments in annuity contracts may not be suitable for all investors.

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