Annuity

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A Sammons Financial Company

The ABCs of RMDs

Let North American help you solve the required minimum distribution puzzle

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Whether you're ready for retirement income or not, IRS rules require that you start drawing down your savings from certain types of accounts at a certain age — currently the year after you turn 70 1/2 or 72 years old, depending on when you were born.

In essence, the tax deferrals that most IRAs, retirement and profit-sharing plans are afforded don't last forever[1]. Of course, navigating IRS rules is never easy. It can be a real puzzle.

Known as required minimum distributions (RMDs), the minimum, annual payments will vary in size from person-to-person based on a number of factors[2] including your age and account balances in impacted accounts.

To keep it simple, currently any year you end with an account balance in one or more of these accounts after you reach RMD age, you'll be required to take a minimum distribution the following year. That income could be taken from:

- **Your existing North American annuity or another company's annuity**
- **Some other qualified savings vehicle [i.e. 401(k), traditional IRA]**

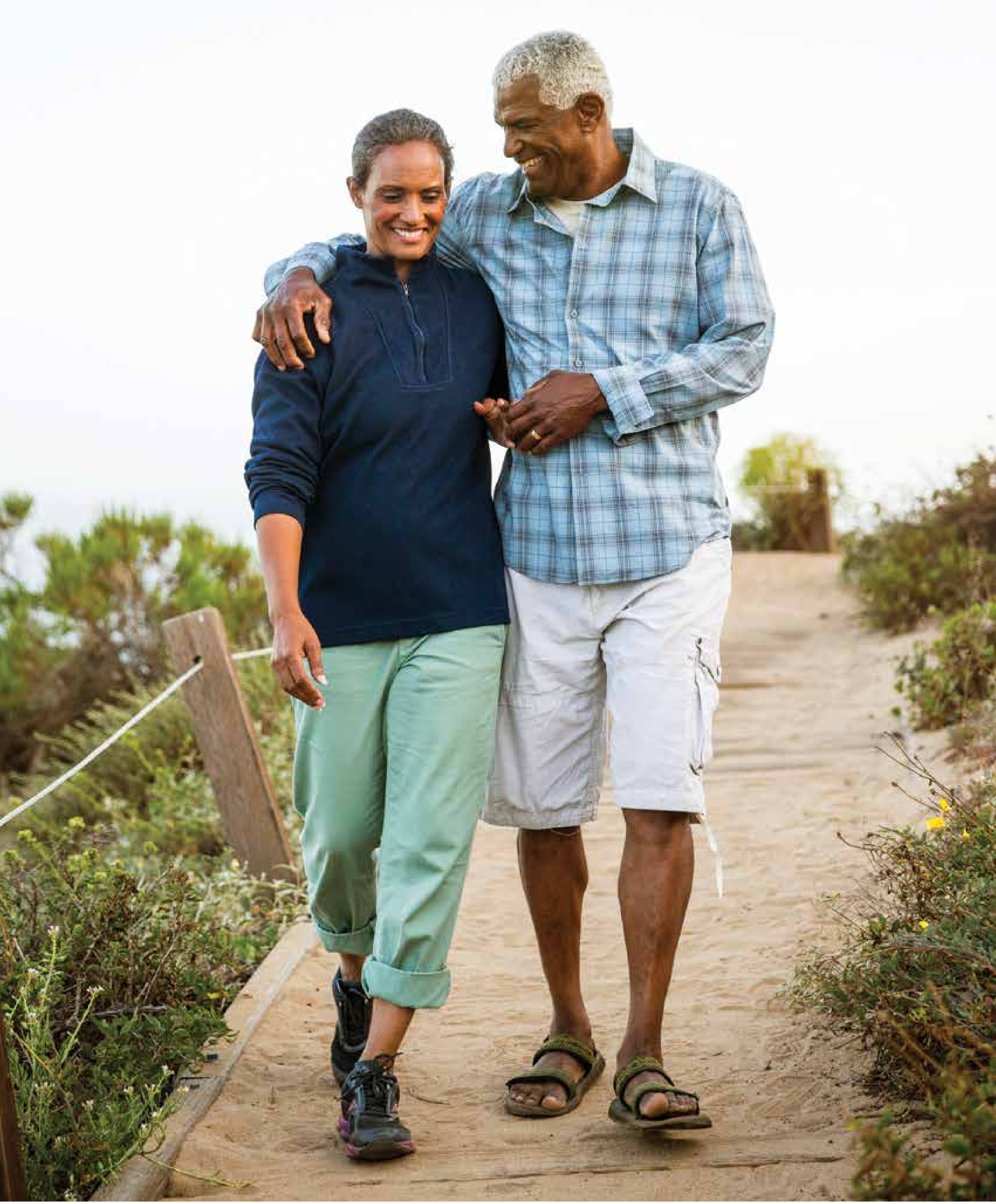
If you are drawing retirement income anyway, it may not be a big deal, but you may not see these obligations as a positive.

You might still be working, and the additional income could lead to an unplanned tax obligation[1] when marginal tax rates would make it more expensive. You may not need the income, even in retirement.

Whatever the case, working with your financial professional and a qualified tax adviser, you can find options to help minimize the impact of your RMDs or make the most of them.

1. Neither North American, nor any agents acting on its behalf, should be viewed as providing legal, tax or investment advice. Required distributions are taxable. Talk to your tax adviser about how this impacts your situation.

2. See IRS.gov for the tables, worksheets and resources to calculate the amount of your required minimum distributions in any given year.



Enjoy word puzzles?
Here's a different way to spell RMD:

Ready yourself for the decisions to come.

Master the rules so you know your options.

Determine how best to help meet your obligations, based on your unique situation.

What accounts do RMD rules apply to?

There are many types of qualified accounts

RMDs apply to qualified retirement savings vehicles. The primary features of a qualified account are that they're funded with pre-tax earnings, and the account value can grow on a tax-deferred basis.

Accounts like these could include:

- Employer-based retirement plans like a pension (defined benefit), 401(k), or 403(b)
- Profit-sharing plans
- Employee stock ownership plans (ESOPs)
- Traditional individual retirement accounts (IRAs)
- SEP IRA
- SIMPLE IRA
- 457(b) plans if money is deferred on a pre-tax basis

If you don't need your RMDs, what could you do with them?

While you must take the income, you choose what happens next

Required minimum distribution rules currently require you to start drawing income from qualified retirement savings accounts by April of the year after you reach RMD age, whether you want to or not.

Of course, this will have tax implications, so talk to your tax adviser[1] before making any final decisions, but here are some ways you may put that money to use.

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What to do with your RMD

Splurge

Nothing's stopping you from spending freely. Go on that trip you've been putting off. Finally tackle that big kitchen renovation. Upgrade your car.

Go see the family (or bring them to you)

If you have the time, what better way to use it and the money you're looking to spend than to visit the kids or, even better, fly them to you? Maybe take a special trip to catch up with a family member you don't see as often, or meet somewhere fun for a family vacation like the old days.

Spoil the grandkids

You can give away the money from RMDs. The caution here would be that gift tax limits[1] may apply, so consult with your tax adviser before putting your beloved family members in a potential bind.

Pay for tuition or contribute to a college fund

An alternative parents might appreciate more would be to use the money for your grandchildren's college education. Paying tuition directly to the school could avoid the gift tax[1] concern. Another tax-friendly option[1], if they're not yet college age, would be to contribute to their existing 529 college savings plan, which can grow tax-deferred.

Set the money aside for emergencies

Booorrrrring. We know. But if you haven't established a comfortable emergency fund, now could be a great time to do it. If you've had the same amount of money set aside for emergencies for a couple decades, now might be the time to reinforce its buying power.

Give back

This is another strategy to consult with your tax adviser[1] on, but the rules allow for RMDs to be directed to qualifying charities and could get entirely deducted from your taxes. You may avoid the increased tax liability, and your favorite cause benefits. Win, win.

A way to get more from your RMDs

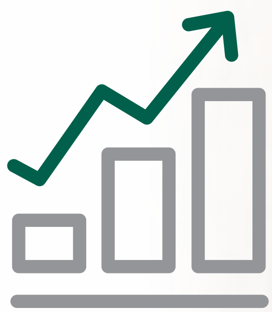
While all of the ideas on Page 6 are excellent options, we like this one the best. **Bring your RMD payout to North American**, and open a new fixed index annuity* to help meet your current needs that will produce tax-free income[1] on the back end for qualified withdrawals.

Depending on the product, you might even be able to cover a few additional ideas we mentioned previously with penalty-free withdrawals or the additional income your annuity generates down the road. Other products may offer an enriched payout to your beneficiaries if there's remaining accumulation value, potentially providing a lasting legacy after you're gone.

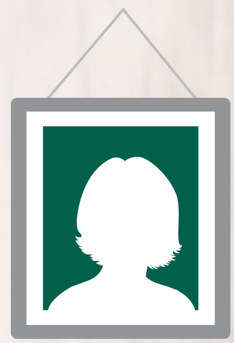
*Subject to new surrender charge schedule, rate guarantees, etc.

What fixed index annuities can do

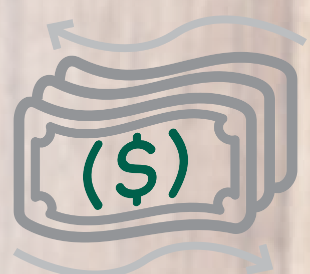
Income



Accumulation



Legacy



Liquidity

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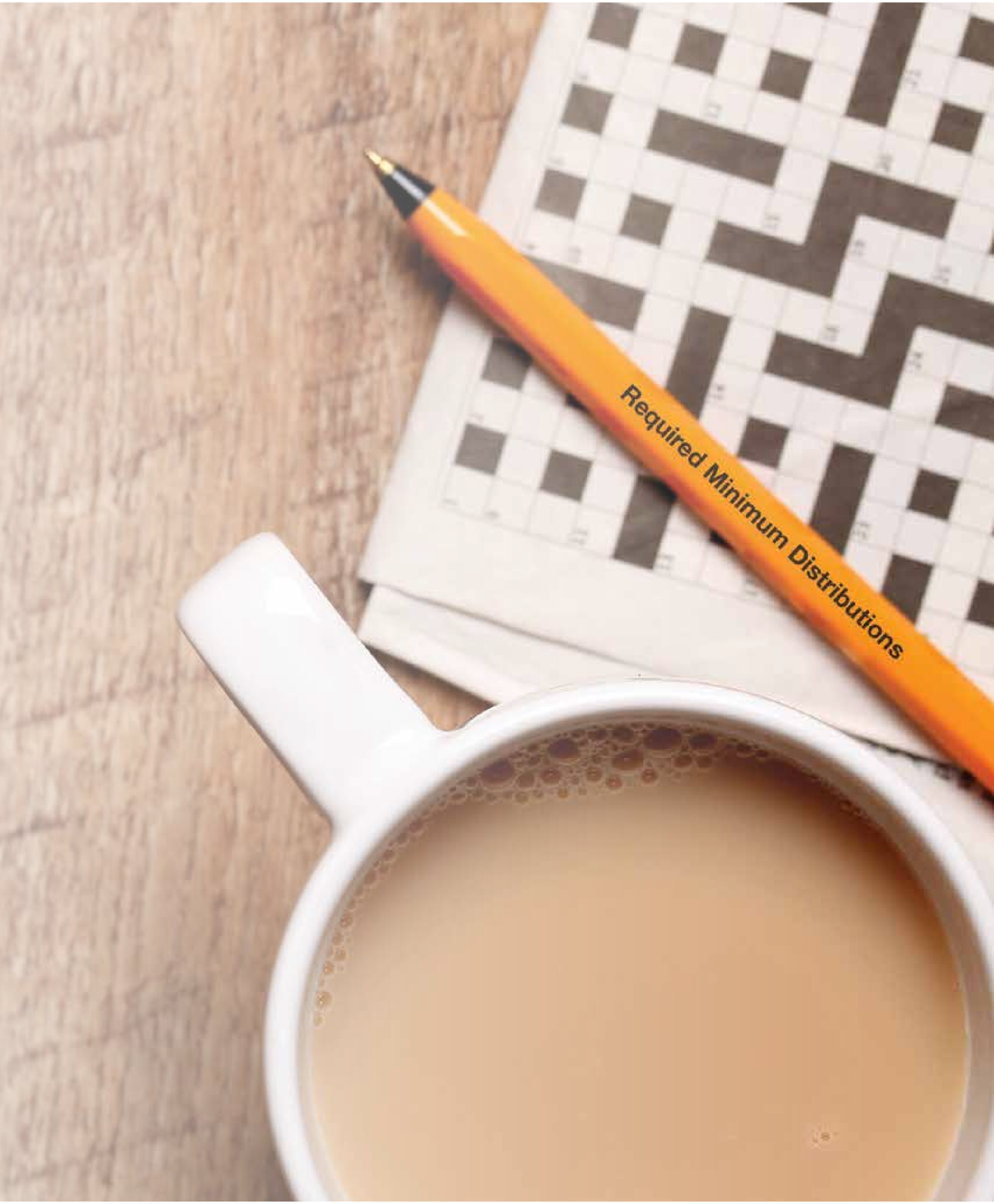
Required Minimum Distributions

How RMDs are calculated

Doing the math on required minimum distributions

Like a lot of tax-related issues, RMDs can be complicated, so talk to your tax adviser before making any decisions. This hypothetical example is shared for educational purposes only to help you see how the math works on RMDs.

RMD calculators are widely available online. You can also refer to the latest tables and worksheets at IRS.gov to estimate what amount of RMD you'll face in a given year. Note that married couples more than 10 years apart in age with the younger spouse listed as sole beneficiary will need to refer to life expectancy Table II.

Single, 71-year-old	Example	Calculate your RMDs
Qualified account 1 balance	**$50,000**	
	+	+
Qualified account 2 balance	**$180,000**	
	+	+
Qualified account 3 balance	**$75,000**	
	=	=
Combined qualified account balance Dec. 31 of prior year	**$305,000**	
	÷	÷
IRS-provided "distribution period" based on your age	**26.5**	
	=	Get distribution period from IRS.gov
Total RMD for this year (can be taken from any single account or combination of multiple qualified accounts)	**$11,509**	

Source (as of December 2019): https://www.irs.gov/pub/irs-tege/uniform_rmd_wksht.pdf

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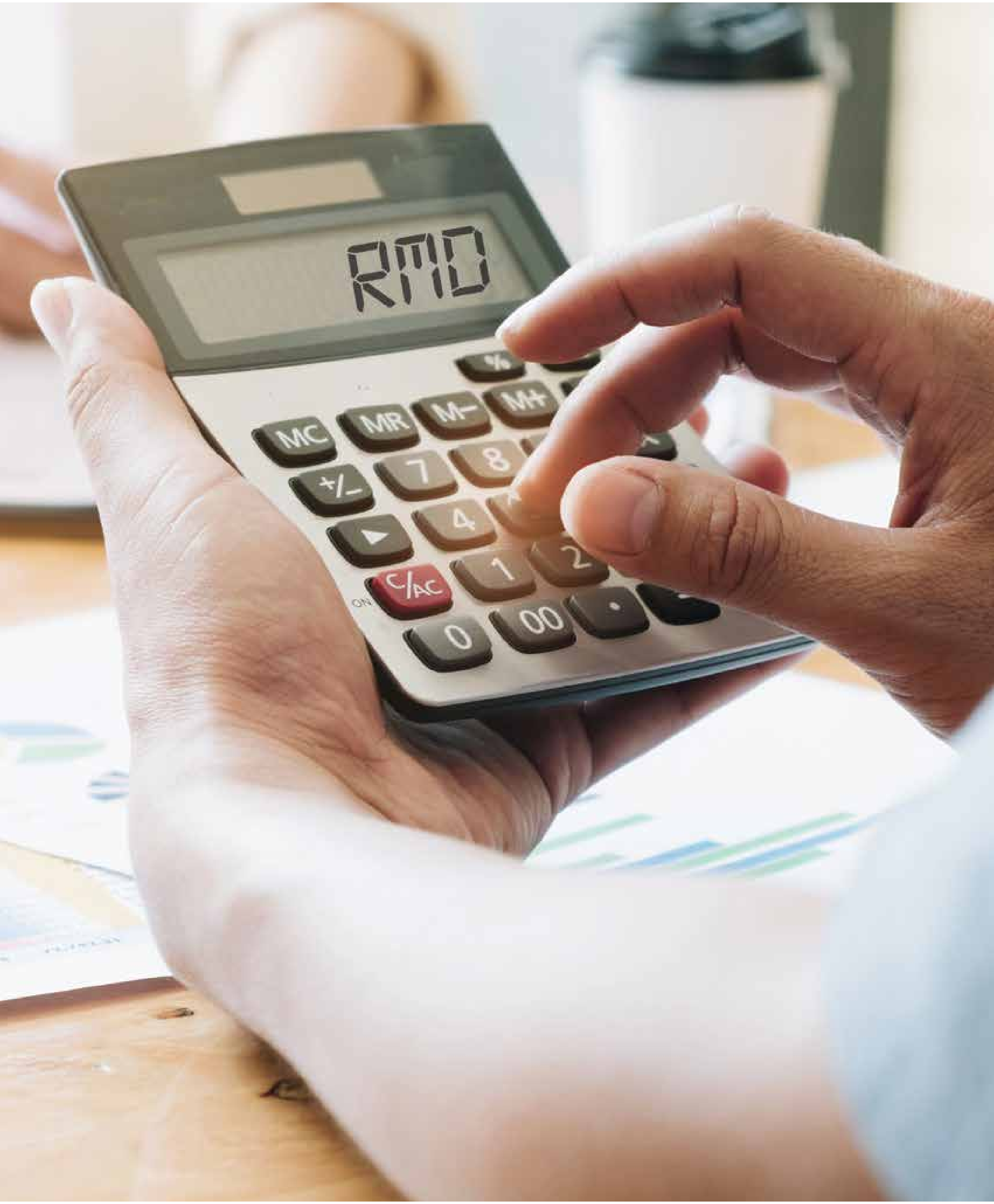
RMD

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