# SECURE Act 2.0 partial annuitization RMD aggregation rule changes

(Updated with actual annuitization valuation examples for 2024)

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Section 204 of the legislation commonly referred to as SECURE Act 2.0 permits the excess of annuitization payments from qualified retirement funds, based on the value of the annuity, to be applied to the required minimum distributions (RMD) of the non-annuitized portion of the same retirement plan or the same individual's IRA. This provision became effective upon enactment of the legislation on December 29, 2022, and applies to annuitizations started either before or after the change.

Prior to this change qualified annuitization payments could not be aggregated together for RMD purposes. This new rule has the potential to mean less taxable income and more tax deferral for those individuals who have annuitized qualified funds and are of RMD age.

## EXAMPLE 1 – 2018 PURCHASED IRA IMMEDIATE ANNUITY

Please note that these examples are based on an analysis of the statutory language from SECURE 2.0. Subsequent regulations or guidance may offer different procedures or outcomes. Examples represent actual IRA immediate annuities valuations as of 12/31/2023 as determined by Nationwide, other facts in the examples are hypothetical and used for illustrative purposes only. These examples do not represent actual client situations and are designed for educational purposes only. Nationwide, nor its employees, give tax or legal advice.

An IRA owner who will turn 78 in 2024 purchased an IRA immediate annuity with a single life and 10-year term certain payout in 2018 that generates $22,971 a year in payments. The purchase amount was $321,000. The December 31, 2023, value of the annuitization, as determined by the insurance company, is $219,489.89 (please note this value may be different depending on the insurance company's methodology).

They also have an IRA brokerage account worth $750,000 as of December 31, 2023. The age 78 Uniform Table life expectancy factor is 22.

To determine the IRA owner's 2024 RMD the IRA owner will add the 2023 yearend value of their brokerage account ($750,000) to the 2023-year-end value of their annuitization ($219,489.89) to establish the 2024 IRA RMD divisible amount of $969,489.89. Then they will divide the 2024 IRA RMD divisible amount of $969,489.89 by the age 78 Uniform Table life expectancy factor of 22, which results in a 2024 aggregated RMD amount of $44,067.72. Finally, they can apply the $22,971 of annuitization payments they will receive in 2024 towards this total 2024 RMD requirement, which means that only $21,096.72 (44,067.72 - 22,971) must be withdrawn from the brokerage account to satisfy their 2024 RMD.

Under the old qualified annuitization RMD non-aggregation rule $57,061.91 would have had to have been taken by the owner, $22,971 of immediate annuity payments plus a $34,090.91 withdrawal from the IRA brokerage account, to satisfy the RMD for that account ($750,000/22 = $34,090.91).

Thus, because of this new rule $12,994.19 more gets to stay growing tax deferred in the brokerage account IRA ($57,061.91 - $44,067.72 = $12,994.19) than under the old non-aggregation rule.

## EXAMPLE 2 – 2023 PURCHASED IRA IMMEDIATE ANNUITY

An IRA owner who will turn 78 in 2024 purchased an IRA immediate annuity with a 7-year term certain only payout in 2023 that generates $65,493.24 a year in payments. The purchase amount was $402,211.50. The December 31, 2023, value of the annuitization, as determined by the insurance company, is $342,482.58.

They also have an IRA brokerage account worth $750,000 as of December 31, 2024. The age 78 Uniform Table life expectancy factor is 22.

To determine the IRA owner's 2024 RMD the IRA owner will add the 2023 year-end value of their brokerage account ($750,000) to the 2023 year-end value of their annuitization ($342,482.58) to establish the 2024 IRA RMD divisible amount of $1,092,482,58. Then they will divide the 2024 IRA RMD divisible amount of $1,092,482,58 by the age 78 Uniform Table life expectancy factor of 22, which results in a 2024 RMD amount of $49,658.30. Finally, they can apply the $65,493.24 of annuitization payments they will receive in 2024 towards this total 2024 RMD requirement, which means that no withdrawals must be made from the brokerage account to satisfy their 2024 RMD.

Under the old qualified annuitization RMD non-aggregation rule $99,584.15 would have had to have been taken by the owner, $65,493.24 of immediate annuity payments plus a $34,090.91 withdrawal from the IRA brokerage account to satisfy the RMD for that account ($750,000/22 = $34,090.91).

Thus, because of this new rule $34,090.91 more gets to stay growing tax deferred in the brokerage account IRA ($99,584.15 - $65,493.24 = $34,090.91) than under the old non-aggregation rule.

## FREQUENT QUESTIONS

**Can I Aggregate Across Plan Types?**

This new rule permitting aggregation of the excess portion of qualified annuitizations did not change the plan type RMD aggregation rules, meaning that aggregation of annuitizations across plan types is not permitted.

However, aggregation within certain plan types is permitted, namely that IRAs can be aggregated together for RMD purposes but cannot be aggregated with 403(b)s and qualified plans for RMD purposes.

403(b)s can be aggregated with other 403(b)s for RMD purposes but not with IRAs or qualified plans.

Finally, qualified plans cannot be aggregated with other qualified plans, IRAs or 403(b)s. This final rule eliminates the ability of defined benefit pension plan payments from being used to satisfy the RMD obligations for other qualified plans, 403(b)s, or IRAs.

**How Will the Annuities Be Valued?**

Annuity companies must determine how to comply with Section 204's annuity valuation requirement and how that valuation will be communicated to the annuity owner. The statute does not provide a valuation methodology. Until such time when, or if, guidance is provided by the Treasury Department for this valuation requirement, annuity companies will be left to determine how to value these annuities using reasonable methods.

**How will the year-end value of the annuitization be communicated?**

Annuity companies will provide a valuation for qualified annuitizations each year.

At Nationwide we are sending the annuitization owner a "Fair Market Value" letter by the end of January of each year telling them the prior year 12/31 valuation of the annuitization. The owner will then use this value in their RMD calculation.

## CONCLUSION

Tax efficiencies can be achieved if the owners are looking for ways to minimize income taxation from RMDs using this new partial annuitization aggregation rule. Consultation with tax advisors will be critical to ensure the minimum amount is taken.

For help on any of the new provisions of SECURE Act 2.0 contact the Advanced Consulting Group at 614-677-6500 or advcg@nationwide.com.

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