RMD Planning

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Narrator: Hello, my name is Carlos Zarate with the Advanced Planning team here at AuguStar Financial. Today I want to discuss required minimum distributions or RMDs. How using annuities in retirement can help simplify the RMD process. And lastly, qualified charitable distributions or QCDs and how QCD's can help manage unneeded RMD income in retirement. But first, let's do a quick recap on how RMDs work.

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An RMD is money that must be withdrawn from a retirement savings plan each year once the account holder reaches a certain age. If you own a qualified account, think traditional IRA or 401(k), once you turn 73, the deadline to take your first RMD is April 1st of the following year, with some exceptions for 401(k) accounts. So, if I turn 73 this year, my first RMD is due by April 1st of next year.

And then the next RMD will be due by December 31st of that same second year in each subsequent RMD will be due by December 31st of each following year. Now let's go back to that first RMD -- even though you can technically wait until April 1st of the year after you turn RMD age, you may want to take that first RMD the same year you turn RMD age because waiting until the second year, you'll have two RMDs coming out in the same year and possibly be pushed up into a higher tax bracket.

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Now, starting in 2033, the RMD age will increase to 75. Remember to aggregate accounts of the same type to determine your total RMD. This works for traditional IRAs 403 Bs, but it doesn't work for 401(k)s.

But imagine I have three traditional IRAs.

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I can aggregate the three accounts to determine one big RMD and choose to satisfy that one big RMD by distributing from one of the three accounts, two of the three accounts, or from all three of the accounts. I cannot do this with 401(k)s. Each 401(k) account has its own respective RMD that must be satisfied individually.

Now let's turn the conversation to annuities. Consider using an income annuity to help satisfy your RMDs. At age 73, your RMD will be less than 4% of all your qualified accounts values, at least under current RMD regulation. For example, say you have three traditional

IRAs just like before, each with a $100,000 year-end value. That means your first RMD for the aggregate three accounts is $11,320.

Now, consider using two of your three IRAs to purchase an AuguStar Orbiter Fixed Indexed Annuity, featuring an income rider. For a fee, this income rider pays 7.1% at age 73. This will equal more than $14,000 of income in the first year of distributions, more than satisfying the RMD for not only the two IRAs you used to fund the annuity, but also the RMD for the third IRA left outside of the annuity.

This avoids disrupting the growth of that third account. Finally, the AuguStar product increases income on a yearly basis, which helps keep pace with potentially growing RMDs.

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Now, the last part of this conversation is qualified charitable distributions. So, normally when you take a distribution from a traditional IRA, you have to pay ordinary income taxes on the withdrawal amount. But for those individuals 70.5 years old or older,

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they can make a charitable contribution or a charitable distribution directly from their traditional IRA to a qualified charity, without triggering a taxable event, without having to itemize that contribution as a deduction. This can be a major advantage, especially when considering an individual donor can contribute up to $108,000 per year in QCDs for the year 2025, again as long as those individuals are 70.5 years old or older.

So, let's go back to our RMD theme. Remember what we said in the previous scenario? At 73 years old, the RMD amount for that individual was $11,320 for their first year. Now imagine they take that distribution as a qualified charitable distribution, never passing through the account holder’s hands, but instead going directly to a qualified charity - they have just satisfied their RMD. They did not need the RMD income. They did not want that RMD income to be a taxable event. It went straight to the charity and it was a great solution for this particular situation.

So, we've discussed RMD basics and when that first RMD is due and when subsequent RMDs are due,

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we've discussed how incorporating an annuity can help simplify the RMD process.

And we've also discussed the merits of qualified charitable distributions. To learn more about RMD strategies, please reach out directly to the Advanced Planning team here at AuguStar Financial.

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