Delaware Life® | Income Planning Institute℠

Making RMDs work for you

Required minimum distributions (RMDs) are not inherently good or bad. They are simply the cost of enjoying tax deductions or exclusions for contributions made to retirement accounts at the government's expense. The government wants to encourage saving for retirement, but it also wants to make sure that such retirement accounts are actually used for retirement.

As such, RMDs generally must begin from qualified plans and traditional IRAs by age 73 (age 75 if born in 1960 or later). In theory, if just RMDs are taken each year, the retiree will not deplete the account before death.

Many retirees are concerned about running out of money in retirement and some have chosen to use RMDs as their distribution strategy. It is not necessarily a bad strategy, but it does run counter to most retirees' spending. Retirees generally tend to spend more in early retirement when they may be the healthiest, and an RMD strategy may take out less in those years.

Age	Life expectancy factor	% of balance
73	26.5	3.77
74	25.5	3.92
75	24.6	4.07
76	23.7	4.22
77	22.9	4.37
78	22.0	4.55
79	21.1	4.74
80	20.2	4.95

Using a portion of a Traditional brokerage IRA to purchase an IRA annuity with an income guarantee can help retirees maximize their income, especially during market volatility. For instance, an IRA annuity with a lifetime income guarantee that offers a payout rate of 6.9% for a single lifetime at age 73 or 6.4% for a joint lifetime at that same age may provide substantially more income for many years. Compare these guaranteed withdrawals versus RMD withdrawals.

Age	IRA value (unprotected)	RMD %	RMD amount	IRA annuity with guaranteed lifetime withdrawal benefit (single)	IRA annuity with guaranteed lifetime withdrawal benefit (joint)
73	$100K	3.77%	$3,770	$6,900 (83% more)	$6,400 (70% more)
74	$80K (20% loss)	3.92%	$3,136	$6,900 (120% more)	$6,400 (104% more)
75	$96K (20% gain)	4.07%	$3,907	$6,900 (77% more)	$6,400 (64% more)
76	$110K (15% gain)	4.22%	$4,642	$6,900 (49% more)	$6,400 (38% more)
77	$93.5K (15% loss)	4.37%	$4,085	$6,900 (69% more)	$6,400 (57% more)

RMDs are calculated based on the account balance as of the previous 12/31. Hypothetical payout rates used to illustrate guaranteed withdrawals.

The guaranteed lifetime withdrawals will not only cover the RMDs for the IRA annuity but may also pay a significant portion of the RMDs for the IRA brokerage account. This allows the IRA brokerage account to continue to grow tax-deferred and can help insulate the IRA brokerage account from sequence-of-return risk.

Sequence-of-return risk occurs when poor market returns happen early in retirement. The combination of market losses and withdrawals means the account has less funds left to recover. Market downturns in the first five-to-10 years can be disastrous. Guaranteed lifetime income from an IRA annuity can reduce the need to take large withdrawals from the IRA brokerage account and, thus, reduce sequence-of-return risk.

IRAs as income assets

IRAs are not just great accumulation assets but can also be great income assets. Purchasing an IRA annuity with a lifetime guarantee can help you enjoy more income than from RMDs only, have a minimum income floor for life and, a steady income despite any market volatility.

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