



Retirement Education Resource Center of North America, Inc.

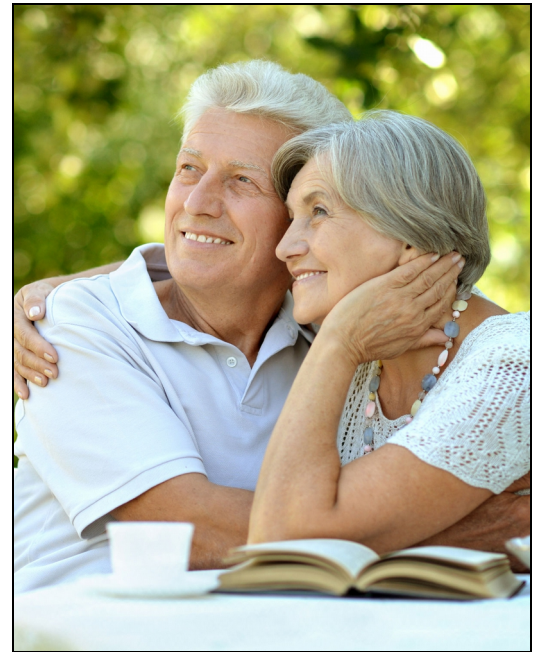
The SECURE Act of 2019 Promotes Lifetime Income Stream Planning

The Setting Every Community Up Retirement Enhancement (SECURE) Act of 2019 was passed in December 2019. In an era of a divided government, 71 of 100 senators and 297 of 435 representatives in the House voted in favor of the act. The purpose for the act recognizes that we are living longer and many people have underestimated the need to save for retirement. The act has many favorable provisions that will help individuals expand their ability to save for retirement and create retirement income.

This article is focused on creating lifetime income for qualified retirement plans based on the SECURE Act. In a way, the SECURE Act is offering individuals the opportunity to create unique private pensions to fit their needs and wishes. For the purpose of this article, 401(k), 403(b), and 457(b) type retirement accounts will be referred to as retirement accounts or retirement funds.

The SECURE Act requires that individuals' retirement account statements include a lifetime income disclosure. This requirement is set to begin one year after the IRS has set the parameters. This statement will provide the individual with a sense of income based on the accumulated funds at that time and what the servicing company can offer. The employee has the opportunity to shop and compare private and company-offered plans.

The SECURE Act suggests the use of annuities to build lifetime income streams since this is a major function of annuities. Annuities are insurance products designed to protect someone or something from a peril. In this situation, the peril is running out of income (money) during retirement. The annuity guarantees the income payout for the life of the insured, regardless of whether the funds are exhausted or not.



Annuities create lifetime income streams in two very different ways.

First, one way annuities create lifetime income streams is through the process of annuitization. All annuities can be annuitized. Annuitization is when an asset, your retirement fund, is moved into an annuity and the funds are permanently transformed into an income stream. The asset is no longer considered an asset; it is considered income. The income stream is set for the rest of your life, and in most situations, the payout will never fluctuate. Since it is no longer considered an asset, the retirement funds are no longer accessible to you for random distributions, other than the established income stream. The income stream will generally satisfy the required minimum distribution (RMD) for this retirement account based on the current IRS chart. If you have other retirement accounts, RMDs for those accounts will need to be independently considered.

The second method of creating a lifetime income stream is to utilize an annuity designed for income stream planning, most commonly a fixed indexed annuity. This type of annuity allows you to do what is described above if and when desired but also allows you to utilize an income element, which independently creates a lifetime income stream while maintaining the annuity as an asset. The payout in this type of lifetime income stream can increase each year, depending on the annuity and the option the individual has selected. By maintaining the annuity as an asset, the individual is able to access the account for random distributions, as well as the established income stream. Since the lifetime income stream is based on the account value, random distributions may reduce the lifetime income stream. This type of annuity offers more flexibility while providing security and income protection.

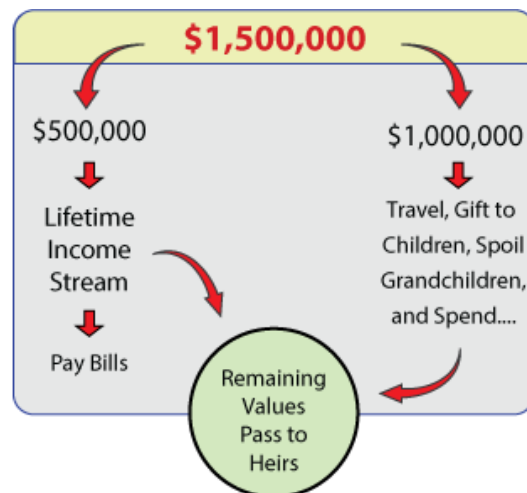
...continued on back.

How the Process Works

The SECURE Act is suggesting that several years (five to ten years, the sooner the better) prior to retirement, individuals consider reallocating a portion of their retirement funds into an IRA annuity that will continue the tax-deferred growth and begin to grow an income stream for the life of the individual or couple. If this is planned properly, the individual/couple could live comfortably during retirement knowing their monthly bills are met with income, while traveling and enjoying retirement on the remaining portion of their retirement funds.

For example:

John and Mary (fictitious characters for the purpose of this example) are both 60 years old and plan to retire at age 67. They have accumulated \$1,500,000 in retirement funds. They have forecasted their monthly bills with inflation. Now they know what they need for additional income to supplement their Social Security and pensions to meet their needs during retirement. Since they are able to take an in-service withdrawal from their retirement accounts, they will fund an annuity that will provide the income they need to live on during retirement. (An in-service withdrawal is a feature found in most retirement plans that allows the individual, at age 59½, to remove funds while still employed by his or her current employer. By doing this at age 60 and placing the funds into an annuity, the funds have time to mature and build a guaranteed income stream for the life of the individual or couple.) This allows John and Mary to build the income they need prior to retiring at age 67.



In this example, if John and Mary take \$500,000 combined, they will have a strong income for retirement and \$1,000,000 plus growth to enjoy during retirement with less stress knowing their monthly living responsibilities are met.

Frequently Asked Questions

I'm already retired. Have I missed the boat?

No. Income annuities are available for all phases of life, including the accumulation phase, as well as the distribution phase, or retirement. Separation from an employer prior to age 59½ also allows the individual the opportunity to move a 401(k) in full or part to an IRA annuity to begin the income stream building process.

How do I know which IRA annuity will work for me?

A qualified independent insurance professional specializing in programs that fit the SECURE Act and income stream planning is needed. Having an independent agent, not a captive agent, allows you to have the agent shop the private market and offer potential options. A captive agent is limited to the programs that his or her company offers. Once the independent agent has shopped the market, he or she can present several options to fit your needs.

How do I find an independent insurance agent that knows how to do this correctly?

The Retirement Education Resource Center of North America, Inc. (RERCNA), through its book, *Positioning 4 Retirement*, provides recommended professionals for this purpose. Simply go to <https://positioning4retirement.com>, scroll down to STEP 4 - FIND A PROFESSIONAL. If there isn't one already vetted in your area, download the questionnaire CHOOSING YOUR TEAM PROFESSIONAL. If you have questions or need assistance, we are available for you by telephone (617-982-3692) or email (info@rercna.com). We will do our best to help you find the qualified insurance professional you need.

The information presented is hypothetical and for informational purposes only. The advice of a licensed financial professional is advised.

Written by Mark S. Cardoza, author of *Positioning 4 Retirement* and founder of the Retirement Education Resource Center of North America, Inc. To learn more about Mark, go to <https://rercna.com>.