WELLS FARGO Advisors

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# RMD entire interest regulation

The Required Minimum Distribution (RMD) entire interest regulation requires that the actuarial present value of an annuity's "additional benefits" be added to the end of year account value for determining RMDs. This new value is known as the "entire interest." This may require a greater RMD than would have been required if only the account value was used in the calculation. Failure to take the reported RMD may result in a 50% IRS excise tax on the difference between the RMD and the amount distributed.

## Benefits included in the ruling

This ruling includes contracts with a living benefit feature where the actuarial present value of the guarantee is 20% greater than the contract value. Additionally, death benefits, excluding premium guarantee death benefits, on contracts with a death benefit feature where the actuarial present value of the guarantee is 20% greater than the contract value. In these instances, the actuarial present value of the benefit will be added to the account value when calculating the RMD. Death benefits that guarantee a return of premium or benefits that have an actuarial present value of less than 20% of contract value are not included. **This means that there will be minimal, if any, impact if the additional benefit is a return of the premium death benefit. However, if the living or death benefit is disproportionately higher than the account fair market value the impact may be much greater.**

## Roth conversion with annuities

Additionally, if you hold an annuity in your Traditional IRA and wish to convert to a Roth IRA, the entire interest rule will apply in calculating the value of the annuity contract at the time of conversion. Your insurance carrier will need to be contacted directly to assist you in determining the value used in the calculation.

**Entire interest hypothetical example**

Carl's IRA funds are invested in an annuity contract that offers a death benefit, which guarantees the greater of return of premium or the step-up value on any anniversary:

- Carl's age is 72 in 2021. Based on IRS Uniform Lifetime Table, his applicable divisor is 25.6. The 12/31/2020 contract value is $100,000.

**Entire interest hypothetical example**

| $18,000 – then Carl's 2021 RMD is $3,906 | $23,000 – then Carl's 2021 RMD is $4,805 |
|---|---|
| Since $18,000 is less than 20% ($20,000) of the contract value, the actuarial value does not need to be added to the contract value. ($100,000 / 25.6 = $3,906) | Since $23,000 is greater than 20% ($20,000) of the contract value, the actuarial value must be added to the contract value when calculating the RMD. ($100,000 + 23,000 / 25.6 = $4,805) |

The RMD in this example is $899 greater under the IRS ruling. If the annuity contract value is very low, the contract could be depleted if the RMD is taken from the annuity investment within the IRA. You may want to consider taking your RMD from other IRA assets so that the annuity benefit is not forfeited. Please contact your financial advisor to learn more.