WELLS FARGO ADVISORS

RMD entire interest regulations

Lifetime Retirement Planning with Wells Fargo Advisors

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. Benefits that may be included in this IRS ruling include death benefits and living benefits.

The IRS ruling includes contracts with a living benefit feature where the actuarial present value of the guarantee is 20% greater than the contract value. Also included are 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 for purposes of 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 for purposes of this calculation.

This means that there will be minimal, if any, impact if the additional benefit is a return of 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.

The following is an example used by one of our vendors in their discussions of the impact of this legislation:

Entire interest 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 2011. Based on IRS Uniform Lifetime Tables, his applicable life expectancy is 25.6 years. The 12/31/2010 contract value is $100,000.	
The annuity company determines that the actuarial value of the death benefit is ...	
$18,000 then Carl's 2011 RMD is $3,906 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)	**$23,000** then Carl's 2011 RMD is $4,805 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 2011 RMD. ($100,000 + 23,000 /25.6 = $4,805)

As you can see in the example above, the RMD 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.

You may start taking your RMDs for this year now. Starting early can help make sure that proper distributions have been taken. Failure to take the reported RMD may result in a 50% IRS tax penalty on the under-distributed amount.

Together we'll go far

Additionally, if you hold an annuity in your Traditional IRA and wish to convert that account 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 best understanding any income tax implications such a conversion may hold.

At Wells Fargo Advisors, we strive to keep our clients informed of the changing regulations that may affect their retirement. If you have further questions, please feel free to contact your Financial Advisor.

William J. Berrall

The Berrall Kons Group

Financial Consultants

20800 Swenson Drive #200

Waukesha, WI 53186

(262) 798-3787

(800) 323-1410

www.berrallkonsgroup.com

Variable annuities are long-term investments suitable for retirement funding and are subject to market fluctuations and investment risk. Guarantees are based on the claims-paying ability of the issuing insurance company. Guarantees apply to minimum income from an annuity; they do not guarantee an investment return or the safety of the underlying funds.

INVESTMENTS AND INSURANCE PRODUCTS:

NOT FDIC INSURED	NOT BANK GUARANTEED	MAY LOSE VALUE

Please Note: This material has been prepared for informational purposes only and is not a solicitation or an offer to buy any security or instrument or to participate in any trading strategy. The accuracy and completeness of this information is not guaranteed and is subject to change. It is based on current tax information and legislation as of December 2010. Since each investor's situation is unique, you need to review your specific investment objectives, risk tolerance and liquidity needs with your financial professional(s) before a suitable investment strategy can be selected. Also, since Wells Fargo Advisors does not provide tax or legal advice, investors need to consult with their own tax and legal advisors before taking any action that may have tax or legal consequences. Insurance products are offered through nonbank insurance agency affiliates of Wells Fargo & Company and are underwritten by unaffiliated insurance companies.

Wells Fargo Advisors is the trade name used by two separate, registered broker-dealers: Wells Fargo Advisors, LLC, and Wells Fargo Advisors Financial Network, LLC, Members SIPC, non-bank affiliates of Wells Fargo & Company.