AXA's have-your-cake-and-eat-it-too approach to RMDs

By Editorial Staff *Fri, Apr 17, 2015*

AXA has developed RMD Wealth Guard, a guaranteed minimum death benefit designed to boost sales of its Retirement Cornerstone variable annuity among retirees who want to protect a chunk of tax-deferred savings from erosion by RMDs and market volatility.

People who are still earning income at 70½, or who would prefer to let all their tax-deferred savings keep growing, or who don't need their retirement accounts for current income, often hate taking the minimum distributions from 401(k)s and traditional IRAs that become mandatory after that age.

Many resent the compulsion and the inconvenience. Or they may simply dislike the bump in taxable income that the RMD entails.

The annuities team at AXA Equitable Life believes that some retirees also see RMDs as a drain on the value of an account that the retirees would rather earmark for a bequest. So AXA created a variable annuity death benefit rider that can protect that specific account from erosion by RMDs, taxes and market volatility.

The new benefit is called the RMD Wealth Guard GMDB (Guaranteed Minimum Death Benefit). It is available on AXA's two-sleeve Retirement Cornerstone variable annuity, for use by contract owners who aren't using the VA for its lifetime income benefit, and costs 90 basis points a year in addition to the insurance, investment and distribution costs of the product.

Investors in Retirement Cornerstone can allocate money either to an investment account or a "protected benefit" sleeve that has less aggressive investments. It can be used to provide guaranteed lifetime income or guaranteed death benefits. The RMD Wealth Guard rider is designed for contract owners who would rather use it for a bequest.

As long as the investor doesn't instruct AXA to take an amount greater than the RMD from the protected benefit sleeve each year (starting in the year in which the investor turns age 70½, the lump sum bequest value of the protected benefit account won't go down. If the value of the underlying investments goes up in a contract year, the bequest value can even go up (until age 85 or until the first RMD is taken).

For example, as AXA Lead Director Steve Mabry told *RIJ* this week, an investor might put a pre-tax $500,000 into a Retirement Cornerstone VA, allocating $250,000 to the investment account and $250,000 to the protected benefit account. Each year after age 70½, the RMD on the entire $500,000 (initially about $18,000) can be taken out of the $250,000 investment account, leaving the legacy account whole and growing.

Here’s the prepared text that AXA provided regarding RMD Wealth Guard:

After age 70½, any RMD withdrawal from the Protected Benefit Account of the Retirement Cornerstone variable annuity will not decrease the amount left for beneficiaries. That way, you can take the distributions required by law without decreasing the money you want to leave for your family.

The RMD Wealth Guard GMDB allows savers to participate in market performance to potentially increase their legacy. Each year, until you take your first RMD or reach age 85, if market increases have grown your Protected Benefit Account, the locked-in amount that will be given to beneficiaries also increases to match the higher value.

In the years thereafter, even if your Protected Benefit Account Value decreases, your beneficiaries are guaranteed the locked-in amount, as long as you never take more than your RMD. In addition, if poor market performance and RMD withdrawals cause the account value to go to zero before you pass away, the RMD Wealth Guard offers a refund feature.

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