Miller Wealth Advisors, LLC

CASE STUDY | VOLUME 104

BUSINESS OWNER LEVERAGES 401(K) TO CREATE ADDITIONAL ADVANTAGES

Boosts His Investments While Ensuring a Lifetime Income (Despite Market Conditions)

THE SITUATION

Todd Smith, 62, owns a successful general contracting company and plans to retire in eight years. He has $1.5 million in his 401(k) account and wants to position his investments more conservatively now that his retirement is drawing near. Todd is uncomfortable with the potential risk that stocks have rallied for a long time and appear to be overvalued by historical standards. He is also concerned that some bonds may lose value if the Fed continues to increase short-term interest rates over the next year.

THE STRATEGY

We shared an idea with Todd that would hedge both market and sequence of return risks. Since Todd's 401(k) plan permits "in-service withdrawals" without penalty for employees age 59 ½ and older, Todd would use a distribution from his plan to fund a variable annuity IRA. *(An in-service distribution is one made while the employee continues to work at the company.)* The advantage of using a deferred variable annuity lies in the living benefit rider*, which allows Todd to lock in a minimum future income for life, regardless of stock or bond market conditions.

SPECIFIC STEPS

First, Todd completed a variable annuity application with a leading company, choosing to roll $750,000 of his 401(k) balance into the annuity in the form of a rollover IRA. Second, Todd submitted a special request for the "in service distribution" to his 401(k) provider. Some mutual funds were sold in the account to raise the needed cash to complete the rollover.

THE OUTCOME

- **No Income Tax Liability:** The transaction constituted a rollover from a qualified plan to an IRA, resulting in no income tax liability.
- **Increase Amount of Lifetime Income:** The features of the living benefit rider will allow Todd's income benefit to double in 12 years for purposes of calculating the minimum lifetime income.
- **Death Benefit for Spouse:** The annuity's enhanced death benefit* will ensure that Todd's wife, Nancy, 60, receives no less than $750,000, even if withdrawals result in a lesser value, so long as at least $1 is left in the contract before Todd's death occurs.
- **Double the Value of a Second IRA:** Todd will continue to fund his 401(k) for the next 8 years and then roll the remaining funds of that plan into a separate IRA at age 70. He'll satisfy Required Minimum Distributions from this new IRA when he reaches 70.5. By doing so, it will allow the annuity IRA's guaranteed value to double at age 74.

*There is an additional cost associated with these two riders.

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