What You Need To Know About

Required Minimum Distributions

If you have questions about RMDs, you’re not alone.

At Adviser Investments, over more than two decades of helping our clients grow and protect their wealth, we’ve heard plenty. Here are some of the more common ones:

What's an RMD?

A required minimum distribution (RMD, sometimes referred to as an MRD) is the smallest withdrawal you must take from a tax-deferred account each year to avoid sizable penalties. RMDs were instituted to ensure that retirement savers pay income taxes on what they've accumulated during their lifetimes.

What accounts do RMD rules apply to?

Traditional IRAs, rollover IRAs, SIMPLE IRAs, SEP IRAs and most small-business accounts (e.g. Keogh plans) as well as 401(k) and 403(b) plans. RMD rules also apply to inherited retirement savings accounts, but depending on your relationship to the original account owner and their age when they passed, the requirements and options on how to handle distributions can vary significantly.

When do I have to start taking them?

Age 70½, typically. For IRAs, you have to take your first RMD by April 1 of the calendar year after the one during which you turned 70½. The same is true for 401(k)s and 403(b)s, though there may be some exceptions if you are still working for the employer who sponsors your plan—your company's benefits person will be able to give you the details.

As noted above, inherited accounts have their own set of rules; spouses have the most flexibility when it comes to the assets and the timing of RMDs. Other beneficiaries may need to take RMDs immediately, draw down the account within five years, or simply take a lump sum distribution following the account owner's death. The account owner's age and the account type are both variables in determining which rules apply. Because inherited accounts are typically more complicated to navigate, our best advice is to speak to a trusted investment or tax professional regarding your options as soon as possible following your inheritance.

I didn't see Roth IRAs in there. Do I need to add those to my RMDs?

Not if you're the original Roth IRA account owner. But if you've inherited a Roth account, you are subject to RMDs. If you have tax-deferred retirement accounts, withdrawing from a Roth IRA will not satisfy RMDs.

How is my RMD calculated?

If you're a Fidelity customer, you can log in to your account online to see your RMD, or if not, they provide an online RMD calculator for anyone to use.

If you want to calculate it yourself, RMDs are determined by dividing your combined tax-deferred retirement account balance as of December 31 by your "life expectancy factor."

How is my RMD calculated? (continued)

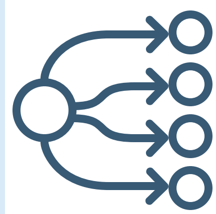
Total Account Balance ÷ Life Expectancy Factor = RMD.

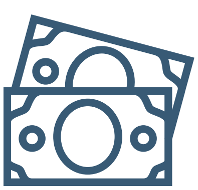
Life Expectancy Factors from age 70 to 80:											
Age	70	71	72	73	74	75	76	77	78	79	80
Life Expectancy Factor	27.4	26.5	25.6	24.7	23.8	22.9	22.0	21.2	20.3	19.5	18.7

Note: Table data as of 2018. If your spouse is sole beneficiary and 10 years younger than you, use the IRS' Joint Life Expectancy Table instead. Source: www.fidelity.com

Do I need to take RMDs from every retirement account?

It depends. For IRAs, you have to calculate the RMD for each account separately, but can then withdraw the total amount from one or a combination of them. The same goes for 403(b)s. With 401(k)s, you need to calculate RMDs separately and take withdrawals individually from each account every year.





What are the tax implications of RMDs?

RMDs are taxed as ordinary income, so withdrawals are included in your total taxable income. This additional income may bump you into a higher tax bracket, which in turn may affect what you'll pay for Medicare coverage and the taxes you owe on your Social Security benefits.

If you don't need the income, one way to reduce the impact of the RMD on your taxes is to consider a charitable gift. Making a "qualified charitable distribution" excludes the amount you give from your taxable income and can go toward satisfying your RMD for the year.

What are the penalties for a missed deadline?

50% of the amount not taken in time. To put a dollar figure on that, imagine your RMD for the year is $17,000 and you only withdrew $3,000 by December 31. You'd be penalized on the $14,000 difference, and thus owe $7,000 to the IRS for missing the deadline. If you miss the cutoff, you can apply for a waiver of the penalty, but there is no guarantee the IRS will accept it. It's best to take your RMD on time.

What can I do to make sure I take my RMDs on time?

Adviser Investments partners with our clients (and their accountants) to manage their RMDs for them every year. We are also experienced helping clients and their relatives determine how best to handle inherited accounts. No matter what type of account you have, if you don't need the income that Uncle Sam requires you to take, we can help you reinvest it or donate it.

Want to learn more? Give us a call or send us an email—we're here to help.

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