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Planning for your RMD in the 21st Century

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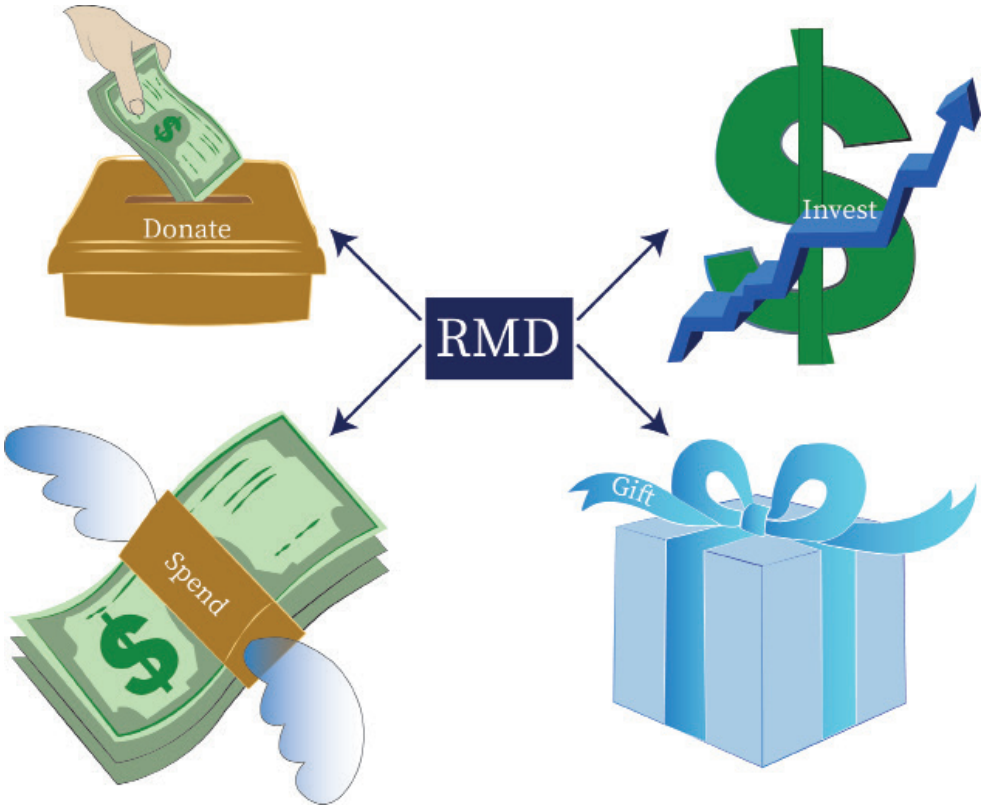

Retirement is that period of time when you step out, and the government steps in. Take for instance something referred to as the "Required Minimum Distribution", or RMD. The RMD is that arbitrary age (currently age 72) that Savers are required to take distributions from their qualified account(s), i.e. 401(k), IRA, TSP, 403(b), etc. And since most Savers worry about the amount to be distributed and from which accounts, let's take a few minutes to share the most frequently asked questions regarding the RMD rules. After reading through our Q & A, please let us know if we can be of help. Our staff is ready and willing to help you not only understand how best to maximize the rules surrounding your RMD, but how to use and enjoy more of your 401(k) and IRA before it's too late.

Tony

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Q: What is the Required Minimum Distribution (RMD)?

A: The age at which Savers are "required" by the government to begin withdrawals from their qualified plans - currently age 72 (previously 70 1/2).

Q: Why did the Government establish RMDs as a Law?

A: So that Savers who choose to "postpone" paying taxes on their retirement money will be required to pay the taxes owed on their money before they die.

Q: What if the Saver, who has money in a retirement account, passes away "prior" to age 72? What happens to the RMD and does anyone else have to adhere to it?

A: Regardless of "when," the Saver, or his family, must pay taxes and adhere to their own prescribed RMD calculations. In other words, the taxes owed on the retirement account must still be paid.

Q: Who is affected by the RMD?

A: Any Saver who has contributed, or had their employer contribute, funds into a retirement plan with "pre-tax" dollars.

Q: What types of plans can be "pre-tax"?

A: 401k (which includes the employer match, if any), 403b, 457, IRA, Thrift Savings Plans (TSP), lump sum pensions, ESOP's, and profit sharing plans.

Q: What happens if I do not take my RMD?

A: The government assesses a 50% penalty tax if one misses the RMD.

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Q: Which types of accounts are normally not affected by RMD rules?

A: After tax non-qualified accounts and Roth IRA's.

Q: How does one determine if the money invested into a "pre-tax" account actually provides tax-savings?

A: Only if the Saver's tax bracket during the withdrawal phase (RMD phase) is "less" than the bracket is during the accumulation phase (prior to RMD age).

Q: How is the RMD calculated?

A: The RMD is calculated for each qualified account by taking the Fair Market Value (FMV) of the account as of December 31st of the previous year and dividing that by a life expectancy factor the IRS publishes.

Example: An IRA with a Dec. 31st FMV:

Age 72 - $300k/25.6 = $11,718.75
Age 75 - $300k/22.9 = $13,100.44
Age 85 - $300k/14.8 = $20,270.27

Q: Assuming the Saver is married and dies prior to age 72, how and when will the surviving spouses's RMD be calculated?

A: The surviving spouse can roll the IRA into their own IRA and postpone RMD's until they reach age 72.

Q: Assuming the Saver is not married and dies and leaves the pre-tax account to his or her children, how will their RMD be calculated?

A: Inherited IRA's to non-spouse beneficiaries will need to be distributed within 10 years following the death of the original owner according to the new Secure Act rules. No annual RMD's are required during that time period.

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Q: Assuming you have a pre-tax account, can it be converted to a Roth IRA and if so, how are the taxes on the conversion calculated?

A: Initially you will establish the baseline tax bracket and taxable income. Calculate the increase in taxes based on the amount you decide to convert. The tax increase will need to be paid in the form of estimated tax payments in the quarter the conversion is executed.

Q: Assuming one converts a portion or all of the pre-tax account to a Roth IRA, will the new Roth IRA be subject to the RMD calculation?

A: All monies associated with the Roth Conversion (RC) are no longer subject to the RMD rules. As well, upon death, any and all beneficiaries of the RC will not be required to pay taxes on the money received.

We trust this Q&A has been helpful. If you have further questions or know of someone who might benefit from our services, please contact us immediately. ***We are just a phone call away.***

Tony

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