

Understanding Required Minimum Distributions (RMDs)

The rules surrounding required minimum distributions (RMDs) can be confusing. Taking the time to understand those rules, together with the impact that RMDs may have on your IRA or retirement account – as well as on your financial plan and tax situation – may be well worth your while.

RMDs Defined

A required minimum distribution (RMD) is the amount that the federal government requires you to withdraw each year – usually after you reach age 70½ – from retirement accounts including traditional IRAs, simplified employee pension (SEP) IRAs and SIMPLE IRAs, as well as many employer-sponsored retirement plans.

The RMD is designed to ensure that you withdraw at least a portion of the funds in your account over your lifetime – and that you pay taxes on those funds. Failure to withdraw less than the required minimum will result in a potentially hefty penalty: The amount not withdrawn is taxed at 50%.

In Other Words: If the RMD on your traditional IRA is determined to be \$8,000 in 2010, but you withdraw only \$3,000 during calendar 2010, you will be subject to an excise tax of \$2,500, or 50% of the amount by which your RMD exceeds your actual distribution.

Income Tax Implications

RMDs are generally subject to federal income tax – taxed at ordinary rates – and, in some cases, may also be subject to state taxes. However, distributions that reflect after-tax contributions may not be taxable. Consult your tax advisor to determine the specifics of your situation with regard to possible implications of income and other taxes.

When to Take Your RMD

Unless you are 1) still working, 2) still participating in your employer's retirement plan and 3) own no more than 5% of the company, you must make your initial required distribution no later than April 1 following the year in which you turn 70½.

If you meet all the above conditions, you can generally delay taking distributions until April 1 following the calendar year in which you retire.

In either case, however, subsequent distributions must be taken by December 31 of each calendar year for the rest of your life or until your account balance is reduced to zero.

In Other Words: The RMD distribution rule means that if you delay your first distribution into the following year, you will be required to take a second distribution before the end of the year. Thus, if you reach 70½ on May 15, 2012, you can take your first distribution any time between that date and April 1, 2013. However, regardless of when you take your first distribution, you must take your second distribution by December 31, 2013.

Calculating RMD

The amount you are required to withdraw from a retirement plan subject to RMD requirements is usually based on your account balance as of December 31 of the year prior to the calendar year during which the distribution must be made.

To determine how much you must withdraw in a given year, divide your account balance at the previous year’s end by the amount indicated in the Uniform Lifetime Table at right, provided by the IRS.

In Other Words: Whether the balance in your account on December 31 of the prior year is \$10,000, \$50,000 or \$100,000, to determine the required minimum distribution, divide that number by the appropriate distribution period as indicated in the Uniform Lifetime Table. (If your spouse is more than 10 years younger than you, see the “What is the younger spouse rule” on the facing page.)

Frequently Asked Questions

Which plans are subject to RMD rules?

Many retirement plans, including most IRAs (such as traditional IRAs, SEP IRAs and SIMPLE IRAs), pension, stock bonus and profit-sharing plans such as 401(k), Section 457(b) and Section 403(b) plans are subject to the RMD requirement. Consult your plan administrator or tax professional if you are uncertain whether your account is subject to RMD. In addition, in some cases, accounts can be aggregated and the distribution, if desired, can be taken from a selected account. Talk to your plan administrator and/or tax professional for more information.

Uniform Lifetime Table	
Age	Distribution Period
70	27.4
71	26.5
72	25.6
73	24.7
74	23.8
75	22.9
76	22.0
77	21.2
78	20.3
79	19.5
80	18.7
81	17.9
82	17.1
83	16.3
84	15.5
85	14.8
86	14.1
87	13.4
88	12.7
89	12.0
90	11.4
91	10.8
92	10.2
93	9.6
94	9.1
95	8.6
96	8.1
97	7.6
98	7.1
99	6.7
100	6.3
101	5.9
102	5.5
103	5.2
104	4.9
105	4.5
106	4.2
107	3.9
108	3.7
109	3.4
110	3.1
111	2.9
112	2.6
113	2.4
114	2.1
115 +	1.9

Are all IRAs subject to RMD?

No. Roth IRAs are exempt.

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What is the “younger spouse” rule?

Under this rule, if your spouse is your sole designated beneficiary and is also more than 10 years younger than you, your RMD may be determined by using the joint life expectancy of you and your spouse. That means you will be able to take your RMDs using the divisors published by the IRS as the Joint Life and Last Survivor Expectancy table. Those figures will give you a longer payout period than that indicated in the Uniform Lifetime Table.

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What happens if I have more than one plan subject to RMD?

Your RMD is calculated separately for each IRA that is subject to a required minimum distribution. However, the total amount can be withdrawn from a single account or from a combination of accounts in a balance you select. You may wish to discuss with your tax and financial advisors the best strategy for taking your distributions.

Keep in mind that, if you have multiple employer retirement plans, your RMD is calculated separately for each plan and must be withdrawn from that plan. However, like plans may be aggregated and the distribution taken from one account. Consult your tax advisor for more information.

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How is my designated beneficiary affected by RMD?

Your designated beneficiary or beneficiaries will typically be required to take minimum distributions from the account. However, if your spouse is the beneficiary and has not yet reached 70½, he or she generally may delay taking distributions by rolling over an inherited IRA or employee plan into an IRA under his or her own name.

In addition, non-spouse beneficiaries could take distributions over a period longer than their own life expectancies, and a trust beneficiary may be able to take distributions based on the age of the oldest trust beneficiary.

Again, you and your spouse and/or other heirs should consult a tax-planning professional with regard to your specific situation.

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