RAYMOND JAMES

Understanding required minimum distributions for account owners

Learning how, why and when to withdraw money from your retirement accounts can save you from penalties.

A required minimum distribution, or RMD, is the minimum amount required to be withdrawn from retirement accounts each year. These retirement accounts include traditional IRAs, simplified employee pension (SEP) IRAs, SIMPLE IRAs, and many employer sponsored retirement plans such as 401(k) and 403(b) 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 Failure to withdraw the required minimum will result in a potentially hefty penalty: The amount not withdrawn is taxed at 50%.

INCOME TAX IMPLICATIONS

RMDs are generally subject to federal income tax at ordinary rates and may also be subject to state tax. However, distributions that include after-tax contributions may not be taxable. Consult your tax advisor to determine your tax liability.

KNOW WHEN TO TAKE YOUR RMD

With the SECURE Act of 2019, anyone born on or after July 1, 1949, will have to start taking annual RMDs during the year they turn 72. Individuals born prior to July 1, 1949, have to start taking RMDs in the year they turn 70½. Generally you must take your RMD by December 31 of the year it is due. However, for the first year you are required to take a distribution, the IRS permits you to take your first RMD by as late as April 1 of the next year.

The RMD requirement applies to all account owners of traditional IRAs, SEP IRAs, SIMPLE IRAs and employer sponsored plans. There is an exception for some individuals to delay taking RMDs from an employer plan if they are still working, known as the "still working exception." To qualify, the employer plan must be from the employer with whom you are still employed, you cannot be a 5% owner of the business, and the plan document must allow for the still working exception. If you meet these criteria, you may delay taking your RMD from that employer plan until the year you retire. Again, the IRS permits you to delay taking that first RMD until April 1 following the year you retire.

CALCULATING YOUR RMD

1. Obtain the balance of your account from the prior December 31.
2. Using the applicable IRS lifetime table, find the “distribution period” that corresponds with your age on your birthday of the current year.
3. Divide the distribution period into your year-end balance. This is your RMD.

Life expectancy tables are found in IRS Publication 590-B. Most IRA owners will use the Uniform Life Table, except when the “younger spouse rule” applies. For those with multiple accounts subject to the RMD rules, remember that RMDs are calculated separately for each.

IF DELAYING THE FIRST, TAKE TWO

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 or face penalties. If you do delay your first distribution, it is important to consider the income tax implications.

UNIFORM LIFE TABLE

AGE	DISTRIBUTION PERIOD	AGE	DISTRIBUTION PERIOD	AGE	DISTRIBUTION PERIOD
70	27.4	86	14.1	102	5.5
71	26.5	87	13.4	103	5.2
72	25.6	88	12.7	104	4.9
73	24.7	89	12.0	105	4.5
74	23.8	90	11.4	106	4.2
75	22.9	91	10.8	107	3.9
76	22	92	10.2	108	3.7
77	21.2	93	9.6	109	3.4
78	20.3	94	9.1	110	3.1
79	19.5	95	8.6	111	2.9
80	18.7	96	8.1	112	2.6
81	17.9	97	7.6	113	2.4
82	17.1	98	7.1	114	2.1
83	16.3	99	6.7	115	1.9
84	15.5	100	6.3		
85	14.8	101	5.9		

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; pensions; stock bonuses; and profit-sharing plans such as 401(k), Section 457(b) and Section 403(b) plans, are subject to the RMD requirement.

ARE ALL IRAS SUBJECT TO RMD?

No, Roth IRAs are exempt from RMDs during the owner’s lifetime, however most beneficiaries of Roth IRAs will be required to start taking distributions when they inherit the accounts.

WHAT IS THE ‘YOUNGER SPOUSE RULE’?

If your spouse is the sole designated beneficiary and is 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 calculate your RMDs using the divisors published by the IRS as the “Joint Life and Last Survivor Expectancy Table.” Those figures provide a longer payout period than those indicated in the Uniform Lifetime Table.

WHAT HAPPENS IF I HAVE MORE THAN ONE ACCOUNT SUBJECT TO RMD?

Your RMD is calculated separately for each IRA covered by the rules. 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 the best strategy for taking your distributions with your tax and financial advisors. If you have multiple employer retirement plans, keep in mind that your RMD is calculated separately for each plan and must be withdrawn from that plan. However, similar plans may be aggregated and the distribution taken from one account. Consult your tax advisor for more information.

WILL MY DESIGNATED BENEFICIARY BE REQUIRED TO TAKE RMDS WHEN THEY INHERIT MY ACCOUNT?

The SECURE Act changed the distribution rules for most designated beneficiaries of IRAs and employer sponsored plans. If an individual inherits an IRA in 2020 and beyond, they will not be required to take annual RMDs, but they will be required to fully distribute the account by December 31 of the 10th anniversary of the original account owner's death. Beneficiaries may choose to take a proportionate amount each year, a lump sum, or as much or little as they like each year. The only requirement is that the account is fully depleted by December 31 of the 10th year.

There are several types of beneficiaries known as eligible designated beneficiaries who do not have to follow the 10-year distribution rule. Spouses may transfer the account balance into their own IRA or they may choose to keep it as a beneficiary IRA and stretch distributions over their life expectancies.

Furthermore, individuals that are not more than 10 years younger than the account owner, and those who are chronically ill or disabled – as defined by the IRS – may also stretch distributions over their life expectancies.

Finally, minor children of the original account owner may also stretch distributions until their age of majority and will then start a 10-year clock to deplete the account.

These eligible designated beneficiaries may stretch distributions over their life expectancies and will use the Single Life Table to calculate their RMDs.

LIFE WELL PLANNED.

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