

# Required Minimum Distributions

## What You Need to Know When It Is Time to Start Distributions from Your Retirement Accounts



### What Are Required Minimum Distributions?

Required minimum distributions (RMDs) are annual withdrawals that you must take from certain retirement accounts after you reach age 73<sup>1</sup> or, in some cases, after you inherit them. Most retirement accounts offer tax-deferral and were not designed to be sheltered from taxes forever. RMDs are generally subject to income taxes and are structured to ensure that the entire balance is distributed to you during your lifetime (or to your beneficiaries after your death). If you fail to take the amount required each year or fail to take it on time, the Internal Revenue Service (IRS) imposes a 25%<sup>2</sup> penalty on the amount that should have been distributed.

### RMDs Apply to the Following Types of Retirement Accounts:

- Traditional IRAs, SEP IRAs and SIMPLE IRAs
- Qualified employer-sponsored retirement plans – e.g. 401(k), profit sharing, money purchase pension plans, and defined benefit plans
- Certain other tax-deferred retirement accounts – e.g. 403(b) and governmental 457(b) plans

Roth IRAs do not have RMDs during your lifetime, but certain beneficiaries that inherit them will have to take distributions after your death.

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<sup>1</sup> In 2033, the age for starting RMDs will increase to 75.

<sup>2</sup> The 25% penalty will be reduced to 10% if the shortfall is corrected within two years.

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### When Must Distributions Begin?

**Traditional IRAs, SEPs and SIMPLEs.** If you are the owner of a traditional, SEP or SIMPLE IRA, your first RMD must be taken no later than April 1st of the year following the year in which you turn age 73. This date is known as your “required beginning date”. For example, if your birthday is March 1, 1950, you will turn age 73 in 2023 and your required beginning date would be April 1, 2024. Every year after your first RMD year, the annual RMD amount must be taken no later than December 31<sup>st</sup>.

**Employer-Sponsored Qualified Retirement Plans.** If you are still working you can generally delay taking RMDs from your employer’s retirement plan until you retire. That’s because your required beginning date is April 1st of the year following the later of turning age 73 or your retirement. However, if you currently own 5% or more of the business or you have already retired but have assets remaining in the plan, then RMDs cannot be delayed. Always check with your plan’s administrator to see what your required beginning date is.

**Roth IRAs.** If you are the owner of a Roth IRA, then there is no required beginning date and are no RMDs during your lifetime. However, some beneficiaries will be required to receive RMDs after your death from the inherited Roth IRA.

### How Much Must Be Distributed Each Year?

The amount you are required to take each year is determined by dividing your prior year-end account balance by the appropriate life expectancy factor. The life expectancy table that is used in the calculation will vary.

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#### Planning Tip

Consider carefully the timing of your first required minimum distribution. For lifetime RMDs, although you are not required to take the first distribution in the calendar year in which you turn age 73, keep in mind that your RMD generally is considered taxable income to you. If you wait to take your first RMD until after December 31, you must receive it by April 1 of the following year. Your second RMD will also have to be taken by December 31 of that year – meaning you’ll face taxes on two distributions in the same calendar year. The increase in taxable income could put you in a higher income tax bracket for that year as a result.

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**Lifetime RMDs.** The IRS Uniform Lifetime Table is used for most lifetime RMDs. You use the life expectancy that corresponds to the age you will attain during that calendar year. For example, if you are age 72 now, but will turn age 73 before the end of the year, you will use the uniform life expectancy of a 73-year-old (26.5 years) in your RMD calculation for this year. The next year, you will use the life expectancy applicable to a 74-year-old (25.5 years). If you are married and your sole beneficiary for the entire year is your spouse, and he or she is more than 10 years younger than you, you may instead use the IRS Joint Life Expectancy Table, which will reduce the amount of the RMD.

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<b>Uniform Lifetime Table</b>					
<b>For Use by:</b>					
<ul style="list-style-type: none"> <li>· <b>Unmarried Owners</b></li> <li>· <b>Married Owners Whose Spouses Are Not More Than 10 Years Younger</b></li> <li>· <b>Married Owners Whose Spouses Are Not the Sole Beneficiaries of Their IRAs</b></li> </ul>					
Age	Distribution Period	Percentage	Age	Distribution Period	Percentage
72	27.4	<b>3.65%</b>	97	7.8	<b>12.82%</b>
73	26.5	<b>3.77%</b>	98	7.3	<b>13.70%</b>
74	25.5	<b>3.92%</b>	99	6.8	<b>14.71%</b>
75	24.6	<b>4.07%</b>	100	6.4	<b>15.63%</b>
76	23.7	<b>4.22%</b>	101	6.0	<b>16.67%</b>
77	22.9	<b>4.37%</b>	102	5.6	<b>17.86%</b>
78	22.0	<b>4.55%</b>	103	5.2	<b>19.23%</b>
79	21.1	<b>4.74%</b>	104	4.9	<b>20.41%</b>
80	20.2	<b>4.95%</b>	105	4.6	<b>21.74%</b>
81	19.4	<b>5.15%</b>	106	4.3	<b>23.26%</b>
82	18.5	<b>5.41%</b>	107	4.1	<b>24.39%</b>
83	17.7	<b>5.65%</b>	108	3.9	<b>25.64%</b>
84	16.8	<b>5.95%</b>	109	3.7	<b>27.03%</b>
85	16.0	<b>6.25%</b>	110	3.5	<b>28.57%</b>
86	15.2	<b>6.58%</b>	111	3.4	<b>29.41%</b>
87	14.4	<b>6.94%</b>	112	3.3	<b>30.30%</b>
88	13.7	<b>7.30%</b>	113	3.1	<b>32.26%</b>
89	12.9	<b>7.75%</b>	114	3.0	<b>33.33%</b>
90	12.2	<b>8.20%</b>	115	2.9	<b>34.48%</b>
91	11.5	<b>8.70%</b>	116	2.8	<b>35.71%</b>
92	10.8	<b>9.26%</b>	117	2.7	<b>37.04%</b>
93	10.1	<b>9.90%</b>	118	2.5	<b>40.00%</b>
94	9.5	<b>10.53%</b>	119	2.3	<b>43.48%</b>
95	8.9	<b>11.24%</b>	120+	2.0	<b>50.00%</b>
96	8.4	<b>11.90%</b>			

## Retirement Planning

### Are RMDs Taxable?

Distributions you receive during your lifetime are generally taxed as ordinary income for traditional IRAs and employer-sponsored retirement plans. Special rules apply to determine the taxation of after-tax contributions distributed, if applicable. Distributions are reported on IRS Form 1099-R.

#### Planning Tip

Required minimum distributions do not have to be taken in cash. If you do not need income and would like to maintain a position in a particular security, you can move the security to a taxable account to satisfy the RMD. The fair market value of the security at the time of the in-kind distribution determines the amount that is reported to the IRS to include in taxable income and establishes the cost basis for the security in the taxable account. Keep in mind that the in-kind RMD has to be made to a non-retirement account. The IRS does not allow you to roll over **any** amount needed to satisfy an RMD to another IRA or eligible qualified plan.

### Can I Gift My RMD to Charity?

Charitable contributions can be claimed as an itemized deduction on your income tax return, potentially lowering your taxable income by the same amount. However, the tax deduction is subject to certain limits and might not completely offset the total tax cost of a distribution for some individuals if that gift is made to a charity after a distribution from your retirement account is paid to you.

However, if you are age 70 ½ or older you may want to consider Qualified Charitable Distributions (QCDs). QCDs are income-tax-free if the gift is made directly from a traditional IRA to an eligible charitable organization, for amounts up to \$105,000 in 2024<sup>3</sup>. QCDs are not available from SEP or SIMPLE IRAs, or from employer-sponsored retirement plans such as 401(k) plans but can be made from an inherited IRA if you meet all of the criteria above. In addition, when you use a QCD, you cannot also claim the same distribution as a charitable contribution.

### Does Each Retirement Account Distribute a Separate RMD?

If you have multiple retirement accounts, you might be able to take your RMD from only one account. This is commonly referred to as RMD aggregation. If you choose to aggregate your RMDs, you must exercise extreme caution, as improper aggregation can result in withdrawing less than the required amount and thereby triggering the IRS 25% penalty.<sup>4</sup>

#### Planning Tip

As you approach your required beginning date, it is important to get organized and identify all accounts that will need to have RMDs. You can simplify your record keeping and make it easier to manage your required minimum distributions by eliminating the need to receive multiple checks from various retirement accounts by consolidating. For your convenience, you can also set up your IRA to automatically distribute the RMD to you each year.

<sup>3</sup> A one-time gift of up to \$53,000 may also be made to a split-interest entity.

<sup>4</sup> The penalty tax can be reduced to 10% if the shortfall is corrected within two years.

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**Traditional IRAs, SEPs and SIMPLEs.** If you have a combination of traditional IRAs, SEP IRAs or SIMPLE IRAs, the RMD amount for each can be totaled and taken from one or more of the accounts as long as they are for the same account owner.

**Employer-Sponsored Qualified Retirement Plans (including 457(b) plans).** RMDs cannot be aggregated for qualified plans, such as pension, 401(k), profit sharing plans, or governmental 457(b) plans. Each employer-sponsored retirement plan must calculate and distribute its own RMD.

In addition, if you elect to receive a lump sum distribution from an employer-sponsored retirement plan and request a direct rollover to an IRA in a year that you are also required to receive an RMD, the retirement plan must distribute the full RMD amount to you prior to the direct rollover. Make sure you contact your plan's

administrator to ensure your RMD payment is not included in the direct rollover. Doing so will create an excess contribution in the IRA and potentially subject the IRA to a 6% excise tax.

**403(b) Plans.** If you have more than one 403(b) account, the RMD amounts can be totaled and taken from one or more of your 403(b) accounts. RMDs for an IRA cannot be taken from a 403(b) or vice versa.

### Need Help?

Required minimum distributions can be confusing and carry a sizable IRS penalty tax if you don't get it right. The assets you have in IRAs and employer-sponsored retirement plans likely represent a lifetime of retirement savings. Your financial advisor can help you manage your distributions and work with your tax and legal professionals to incorporate them into an overall retirement and estate planning strategy.

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