



After years spent saving for retirement and allocating non-taxed dollars into your retirement savings, the time will inevitably come when you have to pay tax on that money. Although account owners are allowed to begin taking distributions penalty-free at age 59½, they are not yet required to take any money out of their accounts. All of this changes once you turn 70½, the age at which you become subject to required minimum distributions (RMDs).

What are RMDs?

A required minimum distribution is the minimum amount you must withdraw from your retirement account each year in order to satisfy IRS requirements. Your first RMD must be taken by April 1 of the year after you turn 70½ and any subsequent RMDs must be taken by December 31 of each year. This ensures that the account holder pays income tax on his or her retirement savings during his or her life.

Although retirees over the age of 59½ can withdraw more than the required minimum amount each year, these excess withdrawals cannot rollover and count toward required distributions in future years, as each RMD is calculated using the account value from the previous year. RMDs do not need to be taken in one withdrawal; retirees may take any number of withdrawals throughout the year, as long as the total amount meets the required minimum.

RMD rules apply to all employer-sponsored retirement plans and to most IRAs. The one exception is that RMD rules do not apply to Roth IRAs while the original owner is alive, because the owner has already paid income taxes on Roth IRA contributions. If account holders fail to withdraw an RMD each year, they will incur a harsh 50 percent tax penalty on the amount that should have been withdrawn from the account, in addition to regular income tax.

Calculating your RMD

As RMD amounts will vary based on your individual factors, each individual will have a different RMD. An RMD is calculated by dividing the balance of the value of your retirement account at the end of the previous year (December 31) by a life expectancy factor that the IRS determines. You can find your determined life expectancy in the IRS's Publication 590. You will use a different table within the publication to find your life expectancy based on various factors, such as if your spouse is more than 10 years younger than you and is also the sole beneficiary of your retirement account or if you are the beneficiary of an account.

Those with employer-sponsored retirement accounts will need to calculate and take an RMD from each account, but those who own multiple IRAs have different options. You may calculate the RMD separately for each account, but then withdraw the total amount from just one or a few accounts. This can prove useful, as you could take the total

RMD from the lowest-performing account to minimize the effect of taxes on the other accounts and potentially maximize the total income you will receive over the course of your retirement. Although you may ask the custodian of your account or your plan administrator to calculate your RMD, it is ultimately up to you to ensure that you calculate and withdraw an accurate RMD.

Tax repercussions of RMDs

Each distribution you take from a retirement account will be taxed at your federal income tax rate (with the exception of distributions from a Roth IRA). State taxes may also apply, depending on your state of residence. If you make a nondeductible contribution to your IRA, for example if you exceeded the contribution limits for deduction, your distributions will not be taxed, as you have already paid tax on the money when you made the contribution.

Keep in mind that if you wait until April 1 of the year after you turn 70½ (the last possible date you can take your RMD without incurring the penalty), you will also have to take another RMD by December 31 of that year. Taking two RMDs in the same year can really up your income, and depending on the amount of withdrawal, could potentially push you into a higher tax bracket for that year. It's important to consider this before determining when you will take your first RMD.

Special circumstances and RMDs

For every rule, there are some exceptions. If you have a special circumstance, there may be certain RMD rules that will have different effects on you. Be aware of the following:

- If you do not take your full RMD but can prove that the discrepancy was due to reasonable error and that you are taking steps to remedy it, the penalty may be waived. To do this, you must file Form 5329 with the IRS and attach a letter of explanation detailing how the error came about and what you are doing to fix it.

- If you are still working at age 70½, you can delay distributions from employer-sponsored plans until April 1 of the year after you retire. However, if you own 5 percent or more of the company sponsoring the plan, you will not qualify for this distribution delay, even if you are still working for the company.
- If you inherit a Roth IRA as a beneficiary, you will be subject to RMDs, as the original owner of the account is no longer alive.
- If you contributed to a 403(b) plan prior to 1987, the RMD rules may not apply to you. Check the IRS website to see if your plan qualifies or not.

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