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10 Things You Should Know About RMDs

Taking required minimum distributions from your retirement savings can be tricky. We can help.

1 **Tapping your savings, even if you'd prefer not to –** You've been salting away a portion of your earned income into tax-advantaged individual retirement accounts (IRA) or 401(k) accounts for years. Nice work. But you can't avoid paying taxes indefinitely. You'll eventually need to start withdrawing from those accounts in the form of required minimum distributions (RMDs for short). The IRS will tax those distributions as ordinary income.

2 **Your RMD threshold depends on your age –** The age rules for RMDs have been a moving target. In 2019, Congress changed the long-standing age threshold for RMDs from 70 ½ to 72. Then, a 2022 law raised the age from 72 to 73—the current threshold—effective in 2023. In 2033, the age threshold rises again to 75.

3 **Will you turn 73 in 2025? Start figuring! –** If you turn 73 in 2025, your first RMD is due December 31, 2025. But, you can put it off until April 1, 2026—in which case a second RMD would be required by December 31, 2026, which could lead to a larger tax burden in the 2026 tax year.

4 **Still working? You might be able to delay RMDs –** Even if you're 73 or older, your 401(k) or 403(b) account more than likely can remain shielded from RMDs until April 1 of the year after you retire. Check with your retirement-plan administrator to determine if your plan allows you to delay RMDs—not all of them do. There's no exemption if you own at least 5% of your business, however.

5 **IRAs, Roth IRAs: What's the difference? –** With a traditional IRA, any regular contributions or investment gains are shielded from taxes until your RMD age kicks in. Roth IRAs are similar, but with two critical differences: (1) Roth IRA contributions are made with after-tax dollars, so you're not taxed on withdrawals from a Roth, and (2) RMDs only apply to beneficiaries.

6 **Other account types subject to RMDs –** Retirement-savings accounts subject to RMD rules include: IRAs (including traditional, SEP, and SIMPLE); and 401(k), 403(b), and 457(b) plans. Account types no longer subject to RMDs include Roth 401(k), Roth 403(b), and Roth 457(b) accounts.

7 **Staying out of the penalty box –** If you forget to take your RMD, you can potentially avoid the standard 25% penalty by (a) taking the distribution and (b) filing IRS Form 5329, requesting a waiver, and explaining why you missed the deadline. If the IRS dings you, the 25% penalty may be reduced to 10% if you correct the shortfall within a two-year window—or it could be waived entirely if you can make the case the missed RMD was due to an error.

8 **Sharpen your pencil and do the math –** The minimum amount you should withdraw each year is calculated by dividing your account balance at the end of the previous year by the distribution period based on your age found in a table published by the IRS (see **FIGURE 1** below and IRS Publication 590 at www.irs.gov for additional details). Talk to your tax professional to see if other IRS tables are more appropriate for your circumstances.

9 **Multiple accounts? Consider aggregation –** If you have account balances in more than one account type, you need to determine your RMD for each account separately. But some account types, including traditional IRAs, rollover IRAs, SEP, and SIMPLE accounts, can be aggregated (i.e., you can add up the RMD amount due for accounts held at different institutions but withdraw it from only one account). If you own more than one 401(k) account, you're not permitted to aggregate them.

10 **A win-win charitable contribution –** You can reduce your taxable income while qualifying toward your RMD by directing up to $100,000 to a qualified 501(c)(3) charitable organization of your choice. Your retirement-account provider—not you—must issue the qualified charitable distribution (QCD) on your behalf by December 31 for the tax year. A QCD could be advantageous for high earners concerned about being bumped into a higher tax bracket or being forced to pay higher income-adjusted Medicare premiums.

FIGURE 1

Calculating Your RMD: The IRS Uniform Lifetime Table

For use by:

- Unmarried account owners
- Married account owners whose spouses aren't more than 10 years younger
- Married account owners whose spouses aren't sole beneficiaries of their IRAs

Age	Distribution Period	Age	Distribution Period	Age	Distribution Period	Age	Distribution Period
72	27.4	84	16.8	96	8.4	108	3.9
73	26.5	85	16	97	7.8	109	3.7
74	25.5	86	15.2	98	7.3	110	3.5
75	24.6	87	14.4	99	6.8	111	3.4
76	23.7	88	13.7	100	6.4	112	3.3
77	22.9	89	12.9	101	6	113	3.1
78	22	90	12.2	102	5.6	114	3
79	21.1	91	11.5	103	5.2	115	2.9
80	20.2	92	10.8	104	4.9	116	2.8
81	19.4	93	10.1	105	4.6	117	2.7
82	18.5	94	9.5	106	4.3	118	2.5
83	17.7	95	8.9	107	4.1	119	2.3
						120+	2

Source: irs.gov

Example: You're turning 73. On December 31 in the year prior to your birthday, your IRA balance stands at $400,000. If you're qualified to use the table shown above, you would divide your $400,000 end-of-year account balance by 26.5. Your required minimum distribution would be $15,094.

Talk to your financial or tax professional to develop a RMD plan that fits your needs.