Game Changer
Are you prepared for the SECURE Act?
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Don’t Mess with RMDs!

When dealing with Required Minimum Distributions, it’s important to get everything right.

BY GARY BLACHMAN & SHALINA SCHAEFER

Editor’s Note:
This is the second of a two-part series on RMDs. Part 1, on plan sponsors’ concerns with RMDs, was published in the Winter issue.

To reflect increased life expectancies and fortify retirement savings, the SECURE Act now pushes the age at which retirees must start drawing on their retirement plan savings from age 70½ to age 72.

The IRS requires plan participants to begin taking required minimum distributions (RMDs) from all employer sponsored retirement plan accounts funded with pre-tax contributions. The RMD rules also apply to IRA-based plans such as SEPs, SARSEPs and SIMPLE IRAs, and to inherited Roth IRAs when someone other than a spouse is a beneficiary.

RMDs are the government’s way of recovering the taxes on your initial retirement plan contributions and
RMDs are the government’s way of recovering the taxes on your initial retirement plan contributions and years of tax-deferred bliss. Of course, most plan participants would prefer to leave these funds in their pre-tax accounts for as long as possible to avoid paying any taxes. Since RMDs can significantly wear away accumulated retirement savings, it is essential to minimize them if possible. However, RMDs and the withdrawal process are quite complicated.

**HOW TO CALCULATE RMDs**

From the government’s perspective, the purpose of RMDs is to empty out your retirement accounts and recoup taxes by the time you die. For participants in qualified retirement plans and 403(b) plans, the SECURE Act now requires RMDs to begin by April 1 of the year following the later of the year of your retirement or the year in which you reach age 72. As a result, for distributions required to be made after Dec. 31, 2019 for individuals who reach age 70 1/2 after that date, the age for the RMDs is now increased to age 72.

An individual who attained age 70 1/2 during 2019 is subject to the pre-SECURE Act requirement and must take RMDs for 2019 and 2020. RMDs for certain 5% owners must now begin by April 1 of the year following the year in which they attain age 72, even if they have not retired. Since IRAs are not employment-based, RMDs from those accounts must begin as of April 1 of the year following the calendar year in which the owner attains age 72. After the initial RMD, the requisite RMD amount must be withdrawn by Dec. 31 of each following year.

Your RMD is calculated by dividing the balance in your tax-deferred accounts as of Dec. 31 of the immediately preceding calendar year by a life expectancy factor prescribed by certain IRS tables in IRS Publication 590-B. There are three life expectancy tables:

- **The Uniform Lifetime Table** is used to calculate RMDs during your lifetime unless your sole designated beneficiary is your spouse who is more than 10 years younger than you.

- **The Joint and Last Survivor Table** is used to calculate RMDs during your lifetime, but only if your sole designated beneficiary is your spouse who is more than 10 years younger than you. This table produces a lower RMD payment in recognition of the longer life expectancy of your spouse beneficiary.

- **The Single Life Expectancy Table** is used to calculate RMDs after your death with respect to your beneficiaries.

The RMD must be calculated separately for each IRA owned by an individual, but the total RMD amount can be withdrawn from one or more of the IRAs. This same aggregation rule applies to 403(b) contracts. However, RMDs from other types of retirement plans, such as 401(k) plans and 457(b) plans, must be taken separately from each of those accounts. Of course, the IRS does not limit an account owner from withdrawing more than the annual RMD and paying even more taxes!

**PENALTY FOR NOT TAKING YOUR RMD**

If you do not timely withdraw your RMDs, you will be subject to a severe tax penalty. Unfortunately, the IRS requires you to take your RMD even if you do not need the full amount each year to live on in retirement. If your total distributions during the year do not satisfy the RMD amount by the applicable deadline, you may be subject to a tax penalty of 50% of the amount you should have taken as an RMD. Plus, you must still pay income tax on the full amount that was supposed to be withdrawn. A taxpayer reports and pays the penalty tax by filing Form 5329, Additional Taxes on Qualified Plans (including IRAs) and Other Tax-Favored Accounts, along with his or her federal income tax return for the year in which the full amount was not distributed. A taxpayer may also request a waiver of the penalty by attaching a reasonable cause statement to Form 5329. For example, the IRS may grant a waiver when the failure to take a distribution was due to a plan error.

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