Edberg Perry

Advisor Connect | Helping Participants Understand RMDs

MAKING IT ACTIONABLE

In the retirement plan business, we naturally focus on helping clients accumulate wealth. But when participants reach the age at which they begin to withdraw money, we turn our attention from accumulation to decumulation.

59½ At age 59 and a half, it's permissible to withdraw money from a qualified retirement plan or IRA without penalty and pay ordinary income tax on the taxable portion of the withdrawal. Most people not only work well past that age, but also avoid making withdrawals until later in life in order to save more and give their contributions and earnings more time to grow.

70½ At age 70 and a half, people participating in a retirement plan or IRA reach the age threshold for **Required Minimum Distributions** or **RMDs**.

RMDs: How They Typically Work

Once a person reaches age 70 ½, he/she needs to withdraw a fraction of the value of each of their retirement accounts in either a lump sum or in installments by December 31st each year. The IRS gives leeway until April 15th of the following year to get this done, but only for the very first year. The amount of the withdrawal is calculated based on published mortality factors.

Even though investment companies or recordkeepers may provide information or services to help, it's the individual's responsibility to calculate their RMDs each year. After all, service providers may not know about other investments or retirement plan accounts individuals may have.

ACTIONS TO TAKE NOW

As a financial advisor, you never know when questions about RMDs may come up. Refresh your knowledge about these basic RMD essentials.

1. RMDs need to be calculated from all traditional IRAs, but the total annual withdrawal can be made from one or more of them. It's not necessary to withdraw money from every account.

2. It's OK to withdraw more than the minimum required amount each year, but doing so doesn't change requirement for the following year.

3. It's not permitted to roll an RMD and into another tax deferred account.

4. There's a penalty for not making required minimum distributions, and it's pretty steep. The IRS imposes a penalty of 50% on the amount that should have been withdrawn that wasn't. After that, the taxpayer still has to withdraw that amount and pay ordinary income taxes on it.

Important Exceptions:

1. Someone 70 ½ who is employed by a company with a 401K may continue to participate in that 401K without needing to make RMD's until they leave the company. This is true unless they own 5% or more of the company. If they do own 5% of the company, the RMD rules apply at 70 ½.

2. While RMD rules apply to traditional IRAs, they do not apply to Roth IRAs.

Don't hesitate to reach out to us for more information when you need it. We're here to help.