

# Tax Planning & Retirement:

## Required Minimum Distributions

### Contributions

typically pre-tax

### Withdrawals

typically taxed as ordinary income at the taxpayer's marginal rate

### Growth

tax-deferred: no tax on gains, interest, & dividends while assets are in the account

One benefit of traditional Individual Retirement Accounts (IRAs) and 401ks is their tax deferred nature.

## Tax Deferral Doesn't Last Forever

At some point, account owners are required to withdraw a minimum amount. This amount is referred to as the Required Minimum Distribution (RMD). Just like any withdrawal from a traditional IRA or 401k, an RMD is taxed as ordinary income at the taxpayer's marginal rate.



### When do RMDs start?

For many years, RMDs started the year someone turned 70.5. This changed with the passage of the SECURE Act and SECURE 2.0 Act.

Year of Birth	RMD Start Age
1950 or earlier	70.5
1951- 1959	73
1960 & later	75

*Folks who reach RMD age and are still working may not need to take an RMD from their 401k, but they will need to do so for any IRAs they own. RMDs continue for the life of the account owner.*



### How much is my RMD going to be?

The RMD is calculated by dividing the account balance as of December 31st in the year before the distribution by a number in an IRS-provided table that's associated with how old the account owner will be in the year of the distribution.

### What if I Don't Take My RMD?

Prior to the passage of the SECURE 2.0 Act, account owners faced a stiff 50% penalty on the amount they should have withdrawn but failed to. The SECURE 2.0 Act reduced the penalty to 25% starting in 2023, which can be further reduced to 10% if the account owner withdraws the necessary amount and submits an amended tax return in a timely fashion.

# Advisor Cheat Sheet:

## RMDs

The amount of the RMD is arrived at by dividing the account balance as of December 31st in the year before the distribution by a number in an IRS-provided table (the "divisor") that's associated with how old the account owner will be in the year of the distribution. Most people will use the Uniform Lifetime Table, as shown here, to determine their divisor.

For example, an individual who turns 76 in the current year and had a prior-year IRA balance of \$500,000 would have an RMD of \$21,097 ( $\$500,000 / 23.7 = \$21,097$ )

Age of Retiree	Divisor	Age of Retiree	Divisor
73	26.5	97	7.8
74	25.5	98	7.3
75	24.6	99	6.8
76	23.7	100	6.4
77	22.9	101	6.0
78	22.0	102	5.6
79	21.1	103	5.2
80	20.2	104	4.9
81	19.4	105	4.6
82	18.5	106	4.3
83	17.7	107	4.1
84	16.8	108	3.9
85	16.0	109	3.7
86	15.2	110	3.5
87	14.4	111	3.4
88	13.7	112	3.3
89	12.9	113	3.1
90	12.2	114	3.0
91	11.5	115	2.9
92	10.8	116	2.8
93	10.1	117	2.7
94	9.5	118	2.5
95	8.9	119	2.3
96	8.4	120+	2.0

*Note how the divisors decrease with age. This will often result in larger withdrawals in future years, assuming even minimal account growth.*

*Individuals with multiple IRAs can aggregate their RMDs, meaning that the RMD can be satisfied through a combination of withdrawals across all IRAs. The same is not true for multiple 401k accounts; with 401ks, the RMD for a specific account must be satisfied from that account alone.*