

# Age 70½ or older? Don't forget your RMDs!



"Your Green"

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**What is an RMD?** In the year in which you turn 70½, current IRS guidelines require you to take a **Required Minimum Distribution (RMD)**, from your Qualified retirement accounts (tax advantaged accounts). For the first RMD, this must be done by *April 1* of the following year. Each year thereafter, you must take your RMD by *December 31*.

**Failure to take the withdrawal as required may result in a 50% IRS**

**excise penalty on the amount of the distribution you should have taken.** The RMD amount is calculated based on the total in the retirement account as of December 31 of the prior year, *so even if that account has a zero balance this year*, the balance of that account from last year will impact the RMD requirements you have this year.

**The types of retirement accounts impacted by the RMD include**, but are not limited to: 401k, 403b, 457 plans, Individual Retirement Accounts (IRAs), SEP IRAs, and SIMPLE IRAs. **It is important to note that Roth IRAs do not have an RMD requirement while the owner is alive.**

The RMD from your Defined Contribution Plans, which includes your 401k, 403b, 457 and TSP plans, is separate from the RMD from your IRA, SEP, SIMPLE, and other IRA type accounts. **While your IRA RMDs can be combined and taken from one account, your 401k and similar account types must have the RMDs taken separately from each account.**

If you have multiple IRA accounts you may take the aggregate required total from one of the accounts, or the required amount from each account, or any other mixture of withdrawals from those impacted accounts. You just need to be sure you satisfy at least the full amount of the RMD as calculated across all accounts. There are valid investment planning reasons why you may want to vary how you take your RMDs from your IRAs.

**If actively working beyond 70½, you may be able to defer 401k/403b RMDs (but not the IRA RMDs) without penalty.**

As with anything else, conditions apply and require:

- That you are actively employed currently.
- Your current employer sponsors the 401k plan in question (a former employer 401k requires an RMD after age 70½).
- You have funds in the account.
- Your plan allows for it.
- You are not a 5% or more owner of the company.

**There is, however, a way to prevent the need for an RMD from a plan you have with a prior employer; when still actively working and eligible for a current employer's plan.** If you have more than one 401(k) and your plan allows for rollovers, it may be possible to consolidate all 401(k) funds into the 401(k) of your current employer, allowing you to delay RMDs on all of the funds in the following year, if the other exceptions apply. This will also simplify RMD planning once you retire by minimizing the number of different RMD distributions you must calculate and take – and by

giving you one account to keep up with.

**Additionally, because RMDs are not required from Roth IRAs**, conversion of IRA accounts to Roth IRA accounts is another way to potentially avoid the need to take RMDs after age 70½. However, the amount converted to Roth must be included as income for the year the conversion took place, which can potentially lead to higher taxes owed.

**Inherited IRAs also must have RMDs taken from them.** Generally, if you have inherited an IRA from someone age 70½ or older, for the year of the account owner's death, use the RMD the account owner would have received. For the year following the owner's death, the RMD will depend on the identity of the designated beneficiary. Many other rules apply to these situations.

**How are RMDs calculated?** RMDs are calculated by dividing the **prior year-end fair market value** of the retirement account by the applicable distribution period, or life expectancy. While you must withdraw the minimum amount, you are still legally allowed to withdraw any amount above that number. To calculate your RMD, visit the IRS website to ensure you are using the correct calculation worksheet. Generally, you will need to do three things for each account:

- Determine the account balance on December 31st of the previous year by account
- Find the distribution factor listed on the IRA calculation tables corresponding to your age
- Divide the account balance by the distribution factor number to determine your RMD.

**Important note:** If your spouse is more than 10 years younger than you, and the sole primary beneficiary of your IRA, you are entitled to have your RMD calculated off "Table 2" rather than the default "Table III." This can help you minimize the amount you must withdraw. You must make your advisor or financial institution aware of this circumstance so that the RMD can be correctly calculated.

You can also use part of your RMD to make charitable contributions directly from your account via the **Qualified Charitable Distribution (QCD)**. **Using a QCD is a tax-smart strategy allowing you to transfer up to \$100,000 per year directly from your IRA to a qualifying charity.** Any amount sent as a QCD counts toward your RMD requirement and reduces the taxable amount of your IRA distribution. This makes the QCD a way to lower both your adjusted gross income and taxable income, potentially resulting in lower overall tax liability. There are rules and responsibilities that come along with this QCD process. One requirement is that you must notify your tax-preparer that you made a QCD, as the IRA vendor will not identify these as QCDs on your annual 1099.

This is a highly simplified overview of RMDs and QCDs. There are multiple rules to follow, so for these decisions the input of a financial advisor and/or a tax professional is recommended. To inquire about your situation, please contact our office at 770.931.1414 to schedule a free consultation, or sign up for one of our upcoming retirement planning classes offered through Gwinnett Technical College. Learn more at [www.rogersgreen.com](http://www.rogersgreen.com). We are here to help!