Required Minimum Distributions

White Paper Produced by David Beaty ChFC, CLU, LUTCF

Retired individuals with retirement accounts are required to take Required Minimum Distributions starting at age 70 ½. Retirement plans include 401K, 403B, 457, Simple IRAs, and SEP plans. Individual with IRA's are also required to take Required Minimum Distributions. An exception is that Roth IRAs do not have required distributions.

1. When considering retirement plan distributions, early distributions (before age 59 ½) are taxable and generally subject to a 10% early withdrawal IRS penalty. You should consult an investment advisor or tax accountant to see if you qualify for an exception to these early withdrawal penalties.

2. Upon reaching age 70 ½ you will now fall under the Required Minimum Distribution (RMD) rule. This rule is based upon the total balance of all accounts within each category of retirement fund on Dec 31 of the previous year end. Your age will determine the percentage to be used to calculate your distribution amount. The IRS penalty for not taking this RMD is a non-deductible 50% penalty and should be avoided.

3. The exceptions to this RMD rule include employees that continue working beyond 70 ½ under an employer sponsor plan such as 401K, 403b, 457, Simple IRA or SEP plans. These employees are exempt from the RMD as long as they are participants in an employer plan.

4. There are also exemptions from RMDs for accounts that have been 'annuitized' providing life or joint life incomes where the account balance has been exchanged for that income. Once the account has been annuitized, income can remain level for life or increase over time based upon an estimated inflation rate.

5. The RMD divisor used to calculate the percentage of required distribution changes each year and gradually increases as you age. At age 70 the percentage is 3.65%, at age 80 it is 5.35%, and at age 90 it is 8.77%. The maximum of 52.63% is reached at age 115.

6. Retirement accounts at death can be rolled over to a spouse IRA without a taxable event or become an inherited IRA for non-spouse beneficiaries. Inherited IRAs are subject to RMDs; but have a different table of distribution percentages starting at age 0 with a 1.21% RMD.

EXAMPLE: The DEC 31 balances of all IRAs are 100,000 and the balance of your 401K is 200,000. You are 72. The published divisor is 25.6, thus your required percentage is 3.91%. Your required distribution for this year would be IRAs (100,000 X 3.91%) = $3,910; 401K (200,000 X 3.91%) = $7,820. Each year vendors are required to notify you of the RMD amount that is needed for that vendor.

NOTE: The confusing part of this rule is that if you reach age 70 in the last half of the year, you will be 70 ½ and 71 in the next year, thus requiring 2 year's distributions. The 70 ½ distribution can be postponed until April 1 the following year, however you will then take 2 yearly distributions during the year of your age 72. The funds received from RMD's are fully taxable in most cases resulting in increased taxable income. For many retirees that are drawing social security, these distributions also increase the amount of Social Security benefits that are taxable. You may benefit from retirement income planning to minimize the effects of RMDs on your income taxes and taxable Social Security benefits.

Contact us at Heartland Financial Services, LTD
www.heartlandfinancial.net or 319-277-1059 for a **free retirement income analysis**.

Reference: 2017 Tax Facts The National Underwriter