Required Minimum Distributions

By Diane Osborne

Required minimum distributions, or RMDs for short, is the amount you must withdraw from your retirement accounts once you reach the age of 70 ½. You can withdraw more than the minimum, but keep in mind that the total amount withdrawn will be included in your taxable income.

For your workplace retirement accounts, if you are still working and don't own more that 5% of the business you are employed by, you may be able to delay taking an RMD until April 1st of the year after you retire. Keep in mind, this rule does not apply to IRAs or plans with companies you no longer work for.

Your RMD is based on the balance in your accounts as of the end of the previous year divided by a life expectancy factor based on your age. For IRAs, you add up the balance of all of your traditional IRA accounts, divide it by the life expectancy factor for your age, and then withdraw the money from any one of your traditional IRA accounts. If you have one or more 401k accounts, you must calculate the RMD separately for each account and take the required amount from each one.

You are not required to take RMDs from Roth IRAs, but you must take them from Roth 401ks. The withdrawal amount from the Roth 401k is not taxable, but you still need to take out the required amount each year, unless you are still working for that employer. One way to avoid having to take the RMD from your Roth 401k is to roll the Roth 401k over to a regular Roth IRA before you are 70 1/2.

Lastly, since your RMD is taxable to you, you have the option to make a Qualified Charitable Distribution (QCD.) A QCD is a direct transfer of funds from your IRA to a qualified charity. This counts towards satisfying your RMD and is also excluded from your taxable income.

Don't miss your RMD deadline because regardless of your account type the IRS penalty may be severe – 50% of the amount not taken on time.

If you are reaching age 70 ½ and have questions on the requirements, we would be happy to assist you.

Thanks,

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