Required Minimium Distributions (RMDs) during life

In brief

What are RMDs?

- Required minimum distributions (RMDs) are rules that prevent indefinite income tax deferral by forcing distributions from qualified plans and IRAs so they will be income taxed.
  - "Qualified plan" RMD rules apply to arrangements under Internal Revenue Code (I.R.C.) § 401(a), annuities under § 403(a) or (b), and eligible governmental § 457(b) plans.
  - "IRA" RMD rules apply to traditional IRAs, SIMPLE IRAs, Simplified Employee Pension plans (SEPs) and – unless stated otherwise – Roth IRAs.
- A 50% penalty is imposed on the recipient where there is a failure to take a required minimum distribution. The penalty can be waived if the I.R.S. finds there was reasonable error.
- Administrators/trustees of qualified plans and IRAs generally do not have to offer the maximum deferral permitted by the RMD rules; they can force distributions more rapidly.

When is the required beginning date (RBD) for RMDs?

The required beginning date (RBD) for traditional (non Roth) IRA owners and for qualified plan participants who are more than 5% owners of the employer is:

- April 1 of the year following the year in which the owner or participant reaches age 72. This was previously 70½ for those born on or before June 30, 1949.

The required beginning date (RBD) for qualified plan participants who are not more than 5% owners of the employer is:

- April 1 of the year following the year in which they retire or reach age 72, whichever is later. This was previously 70½ for those born on or before June 30, 1949.

Other RMD considerations

- After the death of the qualified plan participant or IRA owner, beneficiaries are also subject to a a different set of RMD rules.
- Qualified plans do not include SEPs and SIMPLEs even though they are employer provided retirement plans.
- Roth IRAs do not have RMDs while the owner is alive. But Roth IRAs do have RMDs that apply to the beneficiary after the owner's death.
- Roth qualified plans, including Roth 401(k)s and Roth 403(b)s, are subject to RMDs.

Treasury regulations provide two RMD methods

- Life expectancy fraction method of Treasury Regulation § 1.401(a)(9)-5.
  - Divide the account's end-of-previous-year balance by the applicable life expectancy. The result is the RMD amount for a given year. This is the most well-known method, used for defined contribution, or generally any non-annuitized, non-defined benefit plan.
  - Payments are usually small in early years and larger in later years.
- Annuity / defined benefit plan method of Treasury Regulation § 1.401(a)(9)-6.
  - Annuitize payments for life of owner or joint lives of owner and beneficiary (if begin payments during owner's life), or for life of beneficiary (if payments begin after owner's death), or for a time period that does not extend beyond these applicable life expectancies.
  - Payments are generally even throughout the distribution period.

(REV 0822)

RMDs during owner's life

- While the owner is alive, RMDs must begin on or before the required beginning date (RBD).
  - The owner/participant normally calculates RMDs using the Uniform Lifetime Table (see below), and does not have to be married or have a named beneficiary to use this table.
  - If the owner/participant's sole beneficiary is a spouse who is more than 10 years younger, then a longer Joint Life and Last Survivor Table is used. This produces smaller RMDs.
- Example of lifetime RMD calculation, using the Uniform Lifetime Table (below) and the life expectancy fraction method:

  Patricia reaches age 72 in March 2023. Patricia also has a traditional IRA with a balance of $1,000,000 at the end of 2022. Her required beginning date is April 1, 2024. Her RMD is calculated by taking the year-end balance of $1,000,000 and dividing 27.4 to arrive at an RMD of $36,496. She may take this during 2023 or in 2024 (before April 1, 2024).

  Additionally, Patricia still has a 2024 RMD to take by December 31, 2024. She will calculate this by taking the 2023 end-of-year balance and dividing by 26.5.

Uniform Lifetime Table (updated for RMDs after January 1, 2022)

AGE OF OWNER	DISTRIBUTION PERIOD	AGE OF OWNER	DISTRIBUTION PERIOD	AGE OF OWNER	DISTRIBUTION PERIOD
72	27.4	89	12.9	106	4.3
73	26.5	90	12.2	107	4.1
74	25.5	91	11.5	108	3.9
75	24.6	92	10.8	109	3.7
76	23.7	93	10.1	110	3.5
77	22.9	94	9.5	111	3.4
78	22.0	95	8.9	112	3.3
79	21.1	96	8.4	113	3.1
80	20.2	97	7.8	114	3.0
81	19.4	98	7.3	115	2.9
82	18.5	99	6.8	116	2.8
83	17.7	100	6.4	117	2.7
84	16.8	101	6.0	118	2.5
85	16.0	102	5.6	119	2.3
86	15.2	103	5.2	120+	2.0
87	14.4	104	4.9		
88	13.7	105	4.6		

Income and estate tax – facts and planning

- **Ordinary rates.** Qualified plan and IRA distributions (both during the owner/participant life and after death) are income taxed at ordinary rates.
- **No basis step-up.** Qualified plans and IRAs do not receive a basis step-up at death.
- **Pro-rata basis.** If the plan or IRA contains only pre-tax (deductible) contributions, any distribution will be entirely taxable. If it contains after-tax (nondeductible) contributions, a pro-rata portion of the distribution is generally nontaxable as a recovery of basis.