



# REQUIRED MINIMUM DISTRIBUTIONS:

GET TO KNOW THE BASIC RULES

When you turn 72, the IRS requires you to start making annual withdrawals from your retirement account.



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## What are required minimum distributions (RMDs)?

When you turn 72, the IRS requires you to start making annual withdrawals from your retirement account. This rule is known as required minimum distributions (RMDs). The IRS simply doesn't allow you to keep retirement funds growing tax-deferred in your account indefinitely, and once you make withdrawals, they will be taxed. The upside is that you are giving yourself annual income to combine with any other sources, such as Social Security and personal savings.

It's a good idea to understand the basics about the rules before you reach age 72, including how to calculate your RMD, the latest date you can take one each year, exceptions to the rules, and which retirement accounts trigger RMDs. It's your responsibility to make sure RMDs happen on time. If you miss the annual deadline, you could be looking at a significant tax penalty equal to 50 percent of the amount you should have taken.<sup>1</sup> The following overview covers some, but not all, of the scenarios that you could face. There are exceptions to the rule, and each exception has its own time frame and calculations for withdrawals. For guidance about your particular situation, you should seek advice from your wealth advisor.

## Which retirement savings vehicles are and are not subject to RMDs?

According to the IRS, Traditional IRAs, Simplified Employee Pension (SEP) IRAs, SIMPLE IRAs, 401(k) plans, 403(b) plans, 457(b) plans, profit-sharing plans and other defined contribution plans require RMDs. Roth IRAs do not, until after the death of the owner — at that point, the beneficiary will have to make the required withdrawals.

## When must RMDs be taken?

Currently, your first RMD must happen by April 1 of the year after you turn age 72, what's known as the required beginning date. Required distributions for subsequent years must be taken no later than Dec. 31 of each calendar year until you die, or when your account reaches a zero balance.

### *Example of age rule:*

- You will reach age 72 on June 2, 2026.
- You can take your first RMD during the 2026 calendar year or delay it until April 1, 2027.
- If you delay it, you will have to take two distributions during 2027 — one for 2026 and one for 2027 — this will increase your taxable income in 2027, which could put you in a higher tax bracket for that year.



## SECURE Act Raised RMD Age

In December 2019, the SECURE Act became law and raised the required beginning date from 70 1/2 to 72 for those turning 72 after January 1, 2020. If you turned 70 1/2 in 2019 and haven't taken your RMD, you will have to take it by April 1, 2020. If you miss the deadline, you'll incur a 50 percent penalty.

## What are two exceptions to the age rule?

### RETIRING LATER:

If you work past age 72 and are still participating in your employer's retirement plan, you can delay taking an RMD until April 1 following the calendar year in which you retire (if the retirement plan allows this and you own 5 percent or less of the company). After that, you must take distributions no later than Dec. 31 of each calendar year. However, if you have an IRA or other retirement plan outside of work, you will need to begin taking RMDs from that account under the standard RMD rules previously mentioned.<sup>3</sup>

### PARTICIPATING IN TWO PLANS:

If you participate in two plans — one with your current employer and one with your former employer (and own less than 5 percent of each company), each plan will have a different required beginning date.<sup>3</sup>

**Example of two plans:**

- Your 71<sup>th</sup> birthday will be Dec. 2, 2025 (you will reach age 72 on Dec. 2, 2026).
- You'll keep working until you turn 74 on Dec. 2, 2028.
- You can delay taking your first RMD from your *current* employer's plan until April 1, 2029 (April 1 following the calendar year in which you retire).
- You must take your first distribution from your *former* employer's plan no later than April 1, 2027.

**What happens if an IRA owner dies before or after his or her first RMD?**

The exceptions to the rules get more complex when the IRA owner dies before his or her first RMD, and he or she has bequeathed the IRA to an "entity," such as a charity, an individual, multiple individuals, or to a spouse. In these cases, it's best to consult with your wealth advisor so you understand the time frame in which a beneficiary has to take all distributions.<sup>4</sup>

Keep in mind that if the account owner is 72 or older at the time of his or her death, did not take the RMD for that year, and left an entity, or individual other than their spouse, as the account's beneficiary, that entity or individual will have to take an RMD by Dec. 31 of the year following the account owner's death. Several other factors are at play in this scenario, so it's best to work with your wealth advisor for specifics on how you calculate and report the distribution.<sup>5</sup>

**When do you take the RMD if you are the beneficiary of your spouse's IRA account?**

One of your options is to roll over the IRA assets from your deceased spouse's account into your IRA account, or you can create a new IRA account in your name, according to the IRS. In this instance, if, as the surviving spouse, you are in RMD status, your RMD amount is calculated by taking the account balance as of Dec. 31 of the previous year divided by your life expectancy factor. Use the Single Life Expectancy Table in IRS Publication 590-B to help determine your life expectancy factor.<sup>6</sup> If you are more than 10 years younger than your spouse, then you would use the Joint Life Expectancy Table, still assuming you have entered RMD status. This option may allow you to delay taking RMDs until you turn 72, even if your spouse had turned 72 before his or her death.

Different RMD rules apply if your spouse's assets are transferred into an inherited IRA, a strategy commonly used if the surviving spouse is under age 59½ and is in need of funds from the IRA. You can start taking RMDs in the year after the year of death or delay the withdrawals until your spouse would have turned 72. Please consult a tax advisor to determine how to calculate your RMD.<sup>5</sup>

There is also a five-year rule in which you can withdraw any amount from certain inherited IRAs anytime as long as you withdraw all assets by Dec. 31 of the fifth year following your spouse's death. This rule applies in cases in which the IRA holder hadn't taken any RMDs before his or her death.<sup>7</sup> Spacing out withdrawals over that five-year period could benefit you if you would be in a lower tax bracket at the time of withdrawal, rather than taking all the funds out at once, thereby potentially subjecting you to a much higher tax bracket.

## Are RMDs required for a Roth IRA inherited by a spouse?

Yes, a different rule applies to an inherited Roth IRA. Unlike an individually owned Roth IRA, which does not require RMDs, inherited Roth IRAs do require them, and you must begin the RMDs by Dec. 31 of the year following your spouse's death. The good news is that the withdrawals are typically tax-free, as long as the original Roth IRA was funded for five years or more.

## How are RMDs calculated?

Assuming you are 72 and are required to take a distribution, follow the steps below as defined by the IRS:

- 1. Start with your traditional IRA or retirement plan account balance on Dec. 31 of the previous year** (plus any outstanding rollover and recharacterized Roth IRA conversions<sup>8</sup> not included in any traditional IRA or retirement plan account on Dec. 31 of the previous year)
- 2. Select the Distribution Period from the table in this white paper** based on the age you are on your birthday this year
- 3. Divide line 1 above by the number on line 2**



**The number from #3 above is your RMD for this year** from this savings vehicle. Follow the steps above for each of your savings vehicles unless your spouse<sup>9</sup> is the sole beneficiary of your account(s), and he or she is more than 10 years younger than you. In that instance, visit [irs.gov](https://www.irs.gov) to access the Required Minimum Distribution worksheet that applies to your situation.

**Note:** If you have multiple accounts, according to the IRS, you may have to take RMDs from each account versus all accumulated RMDs from just one account.<sup>10</sup>

### *Example of an RMD calculation:*

- An account holder who is 72 has an IRA balance of \$200,000 as of Dec. 31 of the previous year.
- The distribution period from the table below is 25.6 for age 72.
- The RMD is calculated as:  $\$200,000 / 25.6 = \$7,812.50$ .

### Uniform Lifetime Table<sup>9</sup>

For use by:

- Unmarried owners
- Married owner whose spouse is not more than 10 years younger
- Married owner whose spouse is not the sole beneficiary

Age	Distribution Period	Age	Distribution Period	Age	Distribution Period
70	27.4	81	17.9	92	10.2
71	26.5	82	17.1	93	9.6
72	25.6	83	16.3	94	9.1
73	24.7	84	15.5	95	8.6
74	23.8	85	14.8	96	8.1
75	22.9	86	14.1	97	7.6
76	22.0	87	13.4	98	7.1
77	21.2	88	12.7	99	6.7
78	20.3	89	12.0	100	6.3
79	19.5	90	11.4		
80	18.7	91	10.8		

## What should I do to plan for RMDs?

Because RMD rules can be complex, depending on your situation and the type of retirement account you have to take withdrawals from, it's important to know the basics of how to calculate your RMDs and when to start taking them. To make sure you avoid any potential penalties for missing a withdrawal, consult with your wealth advisor who can also review your complete financial picture to help ensure you are on track to meet your goals.

<sup>1</sup> "Retirement Topics – Required Minimum Distributions (RMDs)," irs.gov.

<sup>2</sup> "Congress is Making Big Changes in Retirement Planning," *Forbes*, May 26, 2019, and the 2019 The SECURE Act Report by the House Committee on Ways & Means.

<sup>3</sup> "When RMDs From Retirement Accounts Aren't Required," *Forbes*, March 23, 2019. <https://www.forbes.com/sites/bobcarlson/2018/03/23/when-rmds-from-retirement-accounts-arent-required/#3649c625909d>

<sup>4</sup> "Everything You Need to Know About RMDs," *Kiplinger*. <https://www.kiplinger.com/article/retirement/T032-C032-S014-everything-you-need-to-know-about-rmds.html>

<sup>5</sup> "If You Are the Surviving Spouse of an IRA Owner," Fidelity, May 25, 2018. <https://www.fidelity.com/viewpoints/retirement/surviving-spouse-IRA>

<sup>6</sup> Link to the IRS Single Life Expectancy Table 1 for determining your age for an RMD if you inherit an IRA from a spouse: [https://www.irs.gov/publications/p590b#en\\_US\\_2018\\_publink1000231236](https://www.irs.gov/publications/p590b#en_US_2018_publink1000231236)

<sup>7</sup> "5 Inherited IRA Rules You Should Know by Heart," June 1, 2017. The Motley Fool. <https://www.fool.com/retirement/iras/2017/06/01/5-inherited-ira-rules-you-should-know-by-heart.aspx>

<sup>8</sup> The IRS defines a "recharacterization" as transferring a contribution plus earnings to a different type of IRA (either a Roth or traditional).

<sup>9</sup> According to the irs.gov "IRA Required Minimum Distribution Worksheet,": "Generally, your marital status is determined as of January 1 of each year. If your spouse is the beneficiary of your IRA on January 1, he or she remains a beneficiary only for purposes of calculating the required minimum distribution for that IRA even if you get divorced or your spouse dies during the year."

<sup>10</sup> "RMD Comparison Chart," irs.gov.



## FOR MORE INFORMATION

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