Required Minimum Distributions

What You Need To Know When It Is Time To Start Distributions From Your Retirement Accounts

What Are Required Minimum Distributions?

Required minimum distributions (RMDs) are annual withdrawals that you must take from certain retirement accounts after you reach age 70 ½ or after you inherit them. Most retirement accounts offer tax-deferral and were not designed to be sheltered from taxes forever. RMDs are generally subject to income taxes and are structured to ensure that the balance is distributed during your lifetime or over the lifetime of your beneficiaries. The Internal Revenue Service (IRS) imposes a 50% penalty on the amount that should have been distributed if you fail to take the amount required each year or fail to take it on time.

RMDs Apply to the Following Types of Retirement Accounts:

- Traditional IRAs, SEP IRAs and SIMPLE IRAs
- Qualified employer-sponsored retirement plans – e.g. 401(k), profit sharing, money purchase pension plans, and defined benefit plans
- Certain other tax-deferred retirement accounts – e.g. 403(b) and governmental 457(b) plans
- Roth IRAs – not during your lifetime, but for beneficiaries that inherit them

When Must Distributions Begin?

Traditional IRAs, SEPs and SIMPLEs. If you are the owner of a traditional, SEP or SIMPLE IRA, your first RMD must be taken no later than April 1st of the year following the year in which you turn age 70 ½. This date is known as your "required beginning date". For example, if your birthday is March 1, 1942, you will turn age 70 ½ on September 1, 2012 and your required beginning date would be April 1, 2013. But if your birthday is November 1, 1942, you will turn 70 ½ on May 1, 2013 and your required beginning date would be April 1, 2014. Every year after your first RMD year, the annual RMD amount must be taken no later than December 31 each year.

Employer-Sponsored Qualified Retirement Plans. If you are still working after age 70 ½, you can generally delay taking RMDs from your employer's retirement plan until you retire. That's because your required beginning date is April 1st of the year following the later of turning age 70 ½ or your retirement. However, if you currently own 5% or more of the business or you have already retired but have assets remaining in the plan, then RMDs must begin no later than April 1st of the year following the year you turn age 70 ½. Some plans impose a required beginning date based on attainment of age 70 ½ for all participants unless you elect otherwise, so always check with your plan's administrator to see what your required beginning date is.

Roth IRAs. If you are the owner of a Roth IRA, then there is no required beginning date and are no RMDs during your lifetime. However, your beneficiaries will be required to receive RMDs after your death from the inherited Roth IRA.

Planning Tip Consider carefully the timing of your first required minimum distribution. For lifetime RMDs, although you are not required to take the first distribution in the calendar year in which you turn age 70 ½, keep in mind that your RMD generally is considered taxable income to you. If you wait to take your first RMD until after December 31, you must receive it by April 1 of the following year. Your second RMD will also have to be taken by December 31 of that year – meaning you'll face taxes on two distributions in the same calendar year. The increase in taxable income could put you in a higher income tax bracket for that year as a result.

Inherited Retirement Accounts. If you are a beneficiary that inherited a retirement account, you may be required to take your first RMD in the year the account owner died. If the owner of the account died after his or her required beginning date and the amount required for the year was not distributed to the owner prior to his or her death, then the beneficiary or beneficiaries must receive any remaining required distribution before the end of the year of death.

If the owner of the retirement account died prior to his or her required beginning date and the beneficiary is not the surviving spouse, the beneficiary will generally have the option to distribute over 5 years or begin RMDs by December 31st of the year following the year of death.

Special rules for the surviving spouse include the ability to delay RMDs until the decedent would have been age 70 ½, and to roll over or treat the account as his or her own and delay the start of RMDs until the surviving spouse reaches age 70 ½. If you inherit a Roth IRA, it will always be treated as if the owner of the account died before his or her required beginning date.

Employer-sponsored retirement plans may have different rules for when you are required to receive distributions from the plan after the employee / participant dies. Be sure to check with the employer or plan's administrator for when you will be required to begin receiving distributions if you have inherited a 401(k) or other type of qualified retirement plan.

How Much Must Be Distributed Each Year?

The amount you are required to take each year is determined by dividing your prior year-end account balance by the appropriate life expectancy factor. The life expectancy table that is used in the calculation will vary.

Lifetime RMDs. The IRS Uniform Lifetime Table is used for most lifetime RMDs. You use the life expectancy that corresponds to the age you will attain during that calendar year. For example, if you are age 71 now, but will turn age 72 before the end of the year, you will use the uniform life expectancy of a 72-year old (25.6 years) in your RMD calculation for this year.

Planning Tip

Keep in mind that a required minimum distribution is just that – a minimum distribution amount. If you wish, you may withdraw more than the required amount in any given year. However, taking more than the minimum amount this year does not mean you can take less next year. You will be required to take at least the calculated minimum amount required in the following year.

Next year, you will use the life expectancy applicable to a 73-year old (24.7 years). If you are married and your sole beneficiary for the entire year is your spouse, and he or she is more than 10 years younger than you, you may instead use the IRS Joint Life Expectancy Table, which will reduce the amount of the RMD.

Uniform Lifetime Table

For Use by:

- **Unmarried Owners**
- **Married Owners Whose Spouses Are Not More Than 10 Years Younger**
- **Married Owners Whose Spouses Are Not the Sole Beneficiaries of Their IRAs**

Age	Distribution period	Percentage	Age	Distribution period	Percentage
70	27.4	3.65%	93	9.6	10.42%
71	26.5	3.77%	94	9.1	10.99%
72	25.6	3.91%	95	8.6	11.63%
73	24.7	4.05%	96	8.1	12.35%
74	23.8	4.20%	97	7.6	13.16%
75	22.9	4.37%	98	7.1	14.08%
76	22.0	4.55%	99	6.7	14.93%
77	21.2	4.72%	100	6.3	15.87%
78	20.3	4.93%	101	5.9	16.95%
79	19.5	5.13%	102	5.5	18.18%
80	18.7	5.35%	103	5.2	19.23%
81	17.9	5.59%	104	4.9	20.41%
82	17.1	5.85%	105	4.5	22.22%
83	16.3	6.13%	106	4.2	23.81%
84	15.5	6.45%	107	3.9	25.64%
85	14.8	6.76%	108	3.7	27.03%
86	14.1	7.09%	109	3.4	29.41%
87	13.4	7.46%	110	3.1	32.26%
88	12.7	7.87%	111	2.9	34.48%
89	12.0	8.33%	112	2.6	38.46%
90	11.4	8.77%	113	2.4	41.67%
91	10.8	9.26%	114	2.1	47.62%
92	10.2	9.80%	115+	1.9	52.63%

Inherited Account RMDs.

The IRS Single Life Expectancy Table is generally used to determine RMDs for beneficiaries of inherited retirement accounts. Unlike lifetime RMDs, the beneficiary's life expectancy is generally determined once, in the year following the year of death.[1] In subsequent years, you reduce the beneficiary's original single life expectancy by one year for each year that passes. This is referred to as the term-certain or declining-years method. For example, if a beneficiary will turn age 50 in the calendar year following the death of the account owner, the first year RMD will be based on the single life expectancy of a 50-year old (34.2 years). The next year, the beneficiary's RMD will be determined using a life expectancy of 33.2 years (34.2 – 1), the following year using 32.2 years (34.2 – 2), and so on.

Single Life Expectancy Table – For Use by Beneficiaries							
Age	Life Expectancy	Age	Life Expectancy	Age	Life Expectancy	Age	Life Expectancy
0	82.4	28	55.3	56	28.7	84	8.1
1	81.6	29	54.3	57	27.9	85	7.6
2	80.6	30	53.3	58	27.0	86	7.1
3	79.7	31	52.4	59	26.1	87	6.7
4	78.7	32	51.4	60	25.2	88	6.3
5	77.7	33	50.4	61	24.4	89	5.9
6	76.7	34	49.4	62	23.5	90	5.5
7	75.8	35	48.5	63	22.7	91	5.2
8	74.8	36	47.5	64	21.8	92	4.9
9	73.8	37	46.5	65	21.0	93	4.6
10	72.8	38	45.6	66	20.2	94	4.3
11	71.8	39	44.6	67	19.4	95	4.1
12	70.8	40	43.6	68	18.6	96	3.8
13	69.9	41	42.7	69	17.8	97	3.6
14	68.9	42	41.7	70	17.0	98	3.4
15	67.9	43	40.7	71	16.3	99	3.1
16	66.9	44	39.8	72	15.5	100	2.9
17	66.0	45	38.8	73	14.8	101	2.7
18	65.0	46	37.9	74	14.1	102	2.5
19	64.0	47	37.0	75	13.4	103	2.3
20	63.0	48	36.0	76	12.7	104	2.1
21	62.1	49	35.1	77	12.1	105	1.9
22	61.1	50	34.2	78	11.4	106	1.7
23	60.1	51	33.3	79	10.8	107	1.5
24	59.1	52	32.3	80	10.2	108	1.4
25	58.2	5	31.4	81	9.7	109	1.2
26	57.2	54	30.5	82	9.1	110	1.1
27	56.2	55	29.6	83	8.6	111 +	1.0

[1] A surviving spouse also has the option to recalculate his or her life expectancy each year. The life expectancy of the deceased account owner can also be used if the account owner died after required beginning date and the beneficiary is older than the decedent.

Are RMDs Taxable?

RMDs you receive during your lifetime or as a beneficiary are generally taxed as ordinary income for traditional IRAs and employer-sponsored retirement plans. Special rules apply to determine the taxation of after-tax contributions distributed, if applicable. RMDs paid from inherited Roth IRAs are generally income-tax-free to the beneficiaries that inherit them. Special rules apply if the distribution is made in the first five years of the Roth IRA which can make a portion of the payment taxable to the beneficiaries receiving them. Distributions are reported on IRS Form 1099-R.

Keep in mind that retirement accounts may also be included in the estate of a decedent and payments from them may be income in respect of a decedent (IRD). The tax rules for estates and IRD are complex and you should consult with your tax or legal advisor to see how these rules will apply to you.

Does Each Retirement Account Distribute a Separate RMD?

If you have multiple retirement accounts you might be able to take your RMD from only one account. This is commonly referred to as RMD aggregation. If you choose to aggregate your RMDs, you must exercise extreme caution, as improper aggregation can result in your withdrawing less than the required amount and thereby triggering the IRS 50% penalty.

Traditional IRAs, SEPs and SIMPLEs. If you have a combination of traditional IRAs, SEP IRAs or SIMPLE IRAs, the RMD amount for each can be totaled and taken from one or more of the accounts as long as they are for the same account owner.

Employer-Sponsored Qualified Retirement Plans (including 457(b) plans). RMDs cannot be aggregated for qualified plans, such as pension, 401(k), profit sharing plans, or governmental 457(b) plans. Each employer-sponsored retirement plan must calculate and distribute its own RMD.

Planning Tip

Required minimum distributions do not have to be taken in cash. If you or your beneficiaries do not need income and would like to maintain a position in a particular security, you can move the security to a taxable account to satisfy the RMD. The fair market value of the security at the time of the in-kind distribution determines the amount that is reported to the IRS to include in taxable income and establishes the cost basis for the security in the taxable account. Keep in mind that the in-kind RMD has to be made to a non-retirement account. The IRS does not allow you to roll over ***any*** amount needed to satisfy an RMD to another IRA or eligible qualified plan.

In addition, if you elect to receive a lump sum distribution from an employer-sponsored retirement plan and request a direct rollover to an IRA in a year that you are also required to receive an RMD, the retirement plan must distribute the full RMD amount to you prior to the direct rollover. Make sure you contact your plan's administrator to ensure your RMD payment is not included in the direct rollover. Doing so will create an excess contribution to the IRA and potentially subject the IRA to a 6% excise tax.

Inherited Retirement Accounts. RMDs for inherited retirement accounts cannot be taken from non-inherited accounts and vice versa. So if you inherited an IRA from your brother and have your own IRA, you cannot aggregate your RMD payments. You must take a separate RMD from each account.

However, if you have more than one inherited IRA from the same decedent at multiple financial institutions, you can aggregate your RMDs and take the required distribution for one or more of the accounts. In order to do this, the inherited IRAs must be from the same decedent and for the same beneficiary.

403(b) Plans. If you have more than one 403(b) account, the RMD amounts can be totaled and taken from one or more of your 403(b) accounts. RMDs for an IRA cannot be taken from a 403(b) or vice versa.

Can I Gift My RMD to Charity?

Charitable contributions can be claimed as an itemized deduction on your income tax return, potentially lowering your taxable income by the same amount. However, the tax deduction is subject to certain limits and might not completely offset the total tax cost of a distribution for some individuals if that gift is made to a charity after a distribution is received.

Since 2006, individuals age 70 ½ or older can instead make Qualified Charitable Distributions (QCDs). QCDs are income-tax-free if the gift is made directly from the traditional IRA to an eligible charitable organization, for amounts up to $100,000, when individuals are age 70 ½ or older. With a QCD, no itemized deduction can be claimed for the charitable contribution.

Planning Tip

As you approach age 70 ½, it is important to get organized and identify all accounts that will need to have RMDs. You can simplify your record keeping and make it easier to manage your required minimum distributions by eliminating the need to receive multiple checks from various retirement accounts by consolidating. For your convenience, you can also set up your IRA to automatically distribute the RMD to you each year.

Special Rules for Inherited Retirement Accounts

The "Designated Beneficiary." Regardless of your age, after your death your beneficiaries will have time to decide how they will distribute any assets remaining in your retirement accounts. Who you named as primary and contingent beneficiaries and their relationship to you will determine their options after your death.

The term "designated beneficiary" contains special meaning when it comes to inherited retirement accounts. A designated beneficiary is an individual whose life expectancy can be used to determine over how many years the retirement account can pay required minimum distributions. On September 30th of the year following your death, those individuals named as beneficiaries at the time of your death that have not taken a lump sum payment from the retirement account will be considered designated beneficiaries. Your estate, charities or non-qualified trusts cannot be considered designated beneficiaries under IRS rules and therefore cannot receive required minimum distributions over a beneficiary's life expectancy.

Instead, with these types of entities, if you die before your required beginning date, the retirement account must be distributed over five years or if you die after your required beginning date, over your remaining life expectancy period. An employer-sponsored qualified retirement plan may have different distribution requirements after your death, so be sure to check with your plan's administrator about payout options available to your beneficiaries.

Planning Tip

Regulations permit certain trusts that are "qualified trusts" to be treated as though the beneficiary of the trust is the designated beneficiary of the IRA. For a trust to be a qualified trust it must be valid under state law, irrevocable or become irrevocable upon death, the beneficiaries of the trust must be identifiable, and documentation identifying the designated beneficiary must be provided to the IRA trustee or custodian by October 31 of the year following the year of death. With a qualified trust, you can look through the trust and use the life expectancy of the oldest trust beneficiary when calculating RMD amounts. Consult with your legal advisor to ensure your trust meets all the requirements before naming a trust as the beneficiary of your retirement account.

Definition of Inherited IRA. When you inherit an IRA and you are not the surviving spouse, you will generally need to establish an "inherited" or "beneficiary" IRA. With employer-sponsored retirement plan assets, if you are not going to leave the assets in the retirement plan, you will also generally need to establish an inherited IRA to continue tax deferral. The wording on the account may vary, but it is important that an inherited IRA clearly identifies both the original account owner and the beneficiary by name; for example, John Doe Deceased FBO Mary Doe Beneficiary IRA or Mary Doe IRA as beneficiary of John Doe.

Moving Assets to an Inherited IRA. The division of the decedent's account into separate inherited IRAs for the beneficiaries is not a taxable event, but rather a direct transfer of assets. Non-spouse beneficiaries do not have the ability to roll over the retirement accounts they have inherited into their own IRA like a surviving spouse does, nor can they make contributions to inherited IRAs or treat them as they would their own IRA.

Any assets moved between financial institutions must be moved as a direct transfer of assets. Failure to move the assets as a direct transfer or direct rollover can make the amount fully taxable to the beneficiary and end the tax-deferral available through the inherited IRA.

Planning Tip Make sure your beneficiaries understand their options when inheriting your retirement accounts. If your beneficiaries and your financial advisor have not met, arrange for an introductory meeting. Ask your financial advisor for a Stretch IRA Illustration to demonstrate how the continued tax deferral of an inherited IRA may benefit your beneficiaries.

IRS Penalties and Successor Beneficiaries. With an inherited IRA, if you do not make an election for how you will receive distributions, the IRS generally assumes you chose the life expectancy method and failure to take the annual amount required would result in the IRS 50% penalty. Beneficiaries receiving distributions from an inherited IRA avoid the 10% early withdrawal penalty regardless of their age when they begin receiving distributions.

You also will have the ability to designate your own beneficiaries on the inherited IRA so any balance remaining at your death may continue to be paid out to your successor beneficiaries over your remaining life expectancy.

Planning Tip Beneficiaries interested in preserving the most favorable life expectancy RMDs must make sure that the transfer into separate inherited accounts for each beneficiary is completed by December 31st of the year following the year of death. Keep in mind if the assets are coming from an employer-sponsored retirement plan, like a 401(k) or profit sharing plan, and a direct rollover transfer is not completed by December 31st of the year following the year of death, the beneficiary options from the plan follow the assets into the inherited IRA. In that case, if the employer's plan only allows for the 5-year rule for a non-spouse beneficiary after death, the 5-year rule will also apply to the inherited IRA.

Multiple Beneficiaries. With multiple beneficiaries, separate inherited IRA accounts must be established by December 31 of the year following the year of the IRA owner's death in order for each beneficiary to use his or her own life expectancy for the RMD calculations. If separate inherited IRA accounts are not established by that deadline, even if separate accounts are created later, each beneficiary would be required to base his or her RMD calculation on the life expectancy of the oldest beneficiary named by the IRA owner.

For a Surviving Spouse – Rollover or Inherited IRA? For a spouse beneficiary, he or she will have more than one way to keep retirement account assets tax-deferred after the account owner dies. It's important to understand the difference between choosing to treat the IRA as your own IRA (rollover) and choosing to establish an inherited IRA.

When a surviving spouse rolls over the retirement account assets into an IRA in their own name:

- RMDs don't begin until the surviving spouse turns age 70 ½.
- Withdrawals may begin at any time, but distributions prior to age 59 ½ may be subject to a 10% early withdrawal penalty unless certain exceptions apply.
- RMDs are made using the Uniform Lifetime table, which is a joint life expectancy factor so RMDs may be less than if you received them from an inherited IRA.
- Additional contributions can be made to the account if the surviving spouse has earned income and is not yet age 70 ½.
- It allows consolidation into one account if the surviving spouse is inheriting multiple retirement accounts from the decedent or has other IRAs of their own.
- Any individual beneficiaries named on the surviving spouse's IRA will be able to use their own life expectancy to continue the tax-deferral of the IRA.

When a surviving spouse chooses an inherited IRA:

- RMDs must begin if the deceased spouse was taking RMDs at the time of death or when the deceased spouse would have been required to begin RMDs at age 70 ½, whether income is needed or not.
- RMDs use the surviving spouse's single life expectancy, which will generally require larger RMDs than the uniform life expectancy if rolled over.
- The 10% early withdrawal penalty does NOT apply regardless of the age of the surviving spouse.
- No contributions or rollovers may be made to the account.
- Any individual beneficiaries named on the inherited IRA account will only be allowed to continue the withdrawal schedule established on the surviving spouse's life expectancy; they cannot use their own single life expectancy to continue tax-deferral.

An inherited IRA may be more appropriate than a rollover if the surviving spouse is younger than age 59 ½ and income is needed from the inherited assets to meet expenses. It may also be appropriate if the surviving spouse is considerably older than the decedent and the decedent died before his or her required beginning date.

The assets you have in IRAs and employer-sponsored retirement plans likely represent a lifetime of retirement savings. Your financial advisor can help you manage your distributions and work with your tax and legal professionals to incorporate them into an overall retirement and estate planning strategy.

REQUIRED MINIMUM DISTRIBUTION RULES FOR BENEFICIARIES		
BENEFICIARY	**OWNER DIES BEFORE REQUIRED BEGINNING DATE OR ROTH IRA**	**OWNER DIES AFTER REQUIRED BEGINNING DATE**
Spouse –Inherited IRA	Spouse's single life expectancy (recalculated) beginning when decedent would have been age 70 ½ (default); 5-year rule^ (optional)	Spouse's single life expectancy (recalculated) beginning in the year following the year of death*
Spouse – Rollover IRA (traditional IRA to traditional IRA , Roth IRA to Roth IRA)	Permitted; for traditional IRAs, RMDs begin when spouse reaches age 70 ½, for Roth IRAs there are no RMDs during spouse's lifetime	Permitted; for traditional IRAs, RMDs begin when spouse reaches age 70 ½*, for Roth IRAs there are no RMDs during spouse's lifetime
Non-Spouse Beneficiary (Individual Only)	Beneficiary's single life expectancy reduced by 1 each year beginning in the year following the year of death (default); 5-year rule^ (optional)	Beneficiary's single life expectancy reduced by 1 each year beginning in the year following the year of death*
Multiple Designated Beneficiaries (Individuals Only)	Beneficiary's single life expectancy, reduced by 1 each year if separate accounts are created by December 31st of the year following the year of death; otherwise, single life expectancy of the oldest beneficiary, reduced by 1 each year beginning in the year following the year of death	Beneficiary's single life expectancy, reduced by 1 each year if separate accounts are created by December 31st of the year following the year of death; otherwise, single life expectancy of the oldest beneficiary, reduced by 1 each year beginning in the year following the year of death*
Multiple Beneficiaries (includes individuals and entities like trusts, estates, or charities)	If entities receive a full payment by September 30th of the year following the year of death, individuals may refer to Multiple Designated Beneficiaries above; otherwise, 5-year rule^	If entities receive a full payment by September 30th of the year following the year of death, individuals may refer to Multiple Designated Beneficiaries above; otherwise, remaining single life expectancy of IRA owner, reduced by 1 each year beginning in the year following the year of death*
Qualified Trust Beneficiary	Single life expectancy of the oldest trust beneficiary, reduced by 1 each year beginning in the year following the year of death	Single life expectancy of the oldest trust beneficiary, reduced by 1 each year beginning in the year following the year of death*
Non-Qualified Trust Beneficiary	5-year rule^	Remaining single life expectancy of IRA owner, determined in the year of death, reduced by 1 each year beginning in the year following the year of death*
Charity	5-year rule^	Remaining single life expectancy of IRA owner, determined in the year of death, reduced by 1 each year beginning in the year following the year of death**
Estate	5-year rule^	Remaining single life expectancy of IRA owner, determined in the year of death, reduced by 1 each year beginning in the year following the year of death**

^The 5-year rule requires a beneficiary to deplete the IRA, in installments or by lump sum, by end of the fifth year following the year of death.

***In the year of death, if owner died prior to receiving his or her full RMD, the beneficiaries must distribute the remaining RMD required for the decedent by 12/31 of the year of death. The single life expectancy of the deceased account owner determined in the year of death and reduced by 1 for each subsequent year can be used if the beneficiary is older than the decedent.**

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