

# EVERYTHING YOU EVER WANTED TO KNOW ABOUT LIFETIME RMDs... AND MORE

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## REQUIRED BEGINNING DATE (RBD)

- IRA owners (including, SEP & SIMPLE IRAs)
  - April 1 of year following year client turns 70 ½
- Plan participants
  - **Generally** April 1 of year following year client turns 70 ½
  - May be extended in certain circumstances

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## STILL WORKING EXCEPTION

- Plan must “allow”
- Participant must own 5% or less of company
  - Aggregation rules apply
  - Test occurs in participant’s 70 ½ year
- What defines “still working?”
- Strategy to delay RMDs

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## 403(B) “OLD MONEY” EXCEPTION

- Applies to 12/31/1986 balance
  - Actual balance only, no earnings
  - Voluntary distributions reduce 12/31/86 balance
- Distributions not required until client reaches 75

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## WHO CALCULATES THE RMD?

- IRAs
  - Custodian must calculate or offer to calculate RMD
- Plans
  - No requirement to aid participant in RMD calculation
- When calculating an RMD the IRA custodian/plan administrator may rely on certain safe harbors

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## Y.O.Y.O

*"Who calculates the amount of the RMD?"*


*Although the IRA custodian or retirement plan administrator may calculate the RMD, the IRA or retirement plan account owner is ultimately responsible for calculating the amount of the RMD."*

- From IRS webpage: Retirement Plans FAQs regarding Required Minimum Distributions

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## SELECTING THE RIGHT LIFE EXPECTANCY FACTOR

- Uniform Lifetime Table
  - Most IRA owners
- Joint Life Table
  - Sole spouse beneficiary >10 years younger for full year
  - Marital status determined January 1
- Single Life Table
  - NEVER used by an IRA owner


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## UNIFORM LIFETIME TABLE

### Factors for Ages 70 – 79

Age of IRA Owner	Life Expectancy in Years
70	27.4
71	26.5
72	25.6
73	24.7
74	23.8
75	22.9
76	22.0
77	21.2
78	20.3
79	19.5

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## UNIFORM LIFETIME TABLE BY %

Age of IRA Owner or Plan Participant	RMD as a % of Account Balance*	Age of IRA Owner or Plan Participant	RMD as a % of Account Balance*
70	3.65%	93	10.42%
71	3.78%	94	10.99%
72	3.91%	95	11.63%
73	4.05%	96	12.35%
74	4.21%	97	13.16%
75	4.37%	98	14.09%
76	4.55%	99	14.93%
77	4.72%	100	15.88%
78	4.93%	101	16.95%
79	5.13%	102	18.19%
80	5.35%	103	19.24%
81	5.59%	104	20.41%
82	5.85%	105	22.23%
83	6.14%	106	23.81%
84	6.46%	107	25.65%
85	6.76%	108	27.03%
86	7.10%	109	29.42%
87	7.47%	110	32.26%
88	7.88%	111	34.49%
89	8.34%	112	38.47%
90	8.78%	113	41.67%
91	9.26%	114	47.62%
92	9.81%	115+	52.64%

\*Note: All RMD percentages are rounded up to the nearest hundredth percent to ensure that clients do not have a shortfall with regard to an RMD

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## CALCULATING THE CORRECT YEAR-END BALANCE

- Begin with year-end statement
  
- Adjust for:
  - Outstanding rollovers/transfers
  - Excess QLAC payments
  - Recharacterizations of prior-year conversions

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## FIRST YEAR RMD CONFUSION

- Which life expectancy factor?
 

Client's Birthday	RMDs Start for Year Client Turns	First-Year RMD Factor
January 1 <sup>st</sup> - June 30 <sup>th</sup>	70	27.4
July 1 <sup>st</sup> - December 31 <sup>st</sup>	71	26.5
- Which prior year-end balance?
  - The distribution year is not necessarily the year in which a distribution is taken
- RMD timing is different

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## FIRST YEAR RMD CONFUSION

The diagram illustrates the timeline for RMD obligations and distribution years. It shows two distribution years: 2018 (First RMD Distribution Year) and 2019 (Second RMD Distribution Year). Key events are marked with arrows and dates:

- 12/31/17:** Account Balance for First RMD
- 3/14/18:** 70<sup>th</sup> Birthday
- 1/31/18:** Notification of RMD Obligation
- 9/14/18:** Turns Age 70 ½
- 12/31/18:** Account Balance for Second RMD
- 4/1/19:** First RMD Due
- 1/31/19:** Notification of (Second) RMD Obligation
- 12/31/19:** Second RMD Due
- 1/1/18:** Determination of Marital Status for Applicable Distribution Period
- 1/1/19:** Re-Evaluation of Marital Status
- 3/14/19:** 71<sup>th</sup> Birthday

Time windows for distributions are shown as shaded bars below the timeline:


- Time Window for First RMD:** From 1/31/18 to 3/14/18.
- Time Window for Second RMD:** From 1/31/19 to 3/14/19.

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## RMD AGGREGATION RULES

- IRAs
  - Calculate RMD on each account individually
  - IRA RMDs can be added together and taken from any one or combination of IRA accounts (this includes SEP and SIMPLE IRAs)
  - Special rules generally apply to annuitized IRA annuities


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## RMD AGGREGATION RULES

- Employer Plans
  - Calculate RMD for each plan individually
  - RMDs must be taken from each plan
  - Employer plan RMDs **cannot** be aggregated
    - 403(b) exception

**Under no circumstances can an RMD from one type of retirement account be taken from a different type of retirement account**

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## RMD AGGREGATION RULES

- Annuities
  - Before annuitization
    - IRA or 403(b) annuities can be aggregated
  - After lifetime annuitization
    - The annuity payment IS the RMD

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## QUALIFIED CHARITABLE DISTRIBUTIONS (QCDs)


- IRA owners and IRA beneficiaries who are actually age 70 ½ or older
  - Not available from plans!
- Limited to \$100,000 per person annually
- Can be used to satisfy all or a portion of a client's RMD
- No charitable contribution deduction, but QCD amount is not added to AGI

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## QUALIFIED CHARITABLE DISTRIBUTIONS (QCDs)


- Can only be made from the taxable portion of IRAs, Roth IRAs and inactive SEP and SIMPLE IRAs
- Must be sent directly from client's IRA to charity or via check payable to the charity
  - No split gifts
  - No private grant-making foundations
- QCD amount would have to be entirely deductible if it were made with non-IRA funds

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## QUALIFIED CHARITABLE DISTRIBUTIONS (QCDs)


- Reporting is done by tax payer
  - Line 15a: QCD amount
  - Line 15b: \$0, "QCD"
- Help mitigate costs tied to AGI / MAGI
- Take on greater importance in 2018 due to TCJA's increase of standard deduction

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## QUALIFYING LONGEVITY ANNUITY CONTRACTS (QLACS)


- FMV excluded from a retirement account owner's prior year-end balance for RMD calculation purposes
- Distributions must begin in the month after attainment of age 85.
- May be purchased with the lessor of 25% of retirement funds or \$130,000
  - 25% limit is applied to each employer plan separately
  - 25% limit is applied in aggregate to IRAs
- Limited death benefit options
  - Return of premium
  - Life annuity

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## QUALIFYING LONGEVITY ANNUITY CONTRACTS (QLACS)

- Must be fixed annuities
- May not offer any commutation benefit, cash surrender value or similar feature
- Can be purchased with IRA, 401(k), 403(b) and governmental 457(b) plan funds
- QLAC overpayments must be returned by the end of the year following the year the premium payment was made

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## STRATEGIES FOR RMD OBLIGATIONS

<b>Couples</b>	Contribute to a Younger Spouse's Retirement Accounts First	Take Withdrawals From The Older Spouse's Retirement Accounts First	Contribute RMDs Back to a (Younger) Spouse's IRA or 401(k) Plan	Leverage Joint Life Expectancy Tables with Much-Younger Spouse Beneficiary
<b>Delay</b>	Delay RMDs with the Still-Working Exception For 401(k) Plans	Delay RMDs with a Qualified Longevity Annuity Contract (QLAC)	Minimize Withdrawals For IRAs Going To Youngest Stretch Beneficiaries	
<b>Accelerate</b>	Systematic Partial Roth Conversions to Reduce Future RMD Obligations	Withdraw (or Convert) More Than RMDs Require (From Older Spouse's IRA)		
<b>Charitable</b>	Qualified Charitable Distributions (QCDs) to Satisfy Mandatory RMD Withdrawals			

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## CORRECTING RMD ERRORS


- Calculate and take missed RMDs
- File Form 5329 for each year of RMD shortfall
- Attach a statement providing reasonable cause

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## OTHER RMD ISSUES


- Liquidity issues
  - How will you pay the RMD?
  - Certain strategies, like use of an LLC, can be used to help
- Timing within the distribution year

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## OTHER RMD ISSUES

- “First-money-out rule”
  - An RMD is considered the first money distributed from an account
- Rollovers vs. Transfers
  - Plan-to-IRA rollovers
  - Roth conversion

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**QUESTIONS?**

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