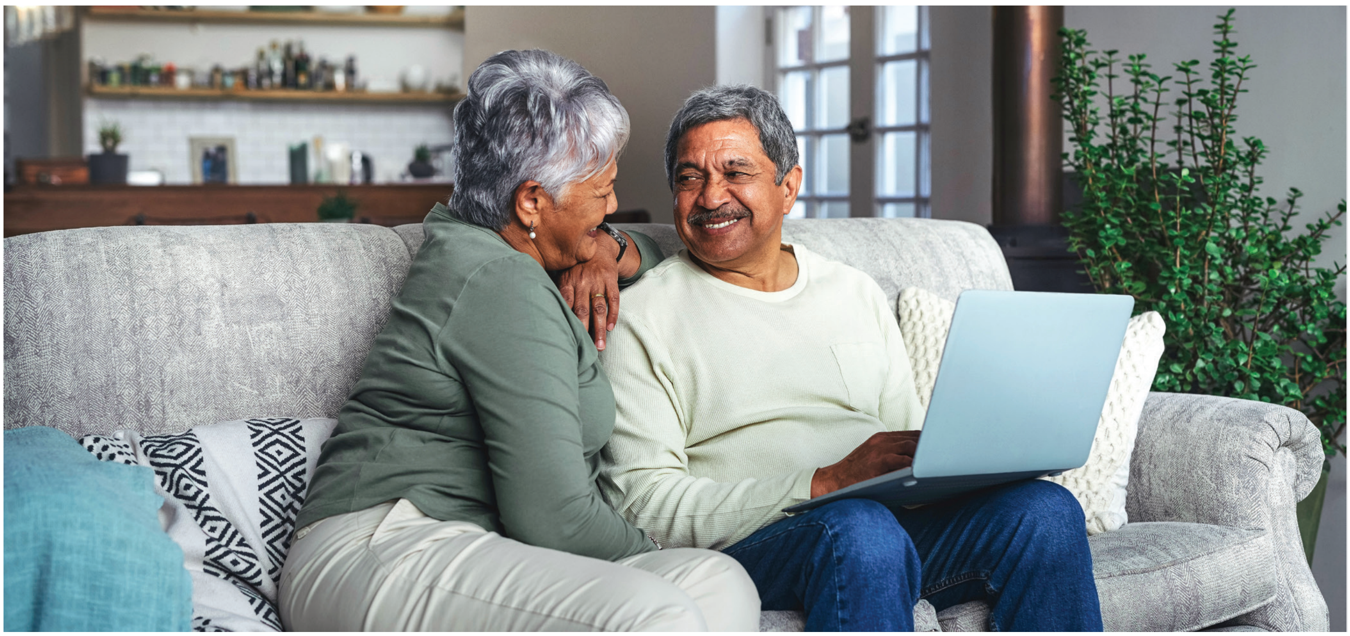
Key Wealth Institute

What You Need to Know About RMDs: Age 73 Is the New 72 and More



For years, perhaps even decades, you've deferred paying taxes on money you have been stashing in retirement accounts, either IRAs or defined contribution plans.

The bad news is that as you approach your golden years, that tax bill is about to come due. But there is at least some good news, too.

Until recently, the Internal Revenue Service (IRS) mandated required minimum distributions (RMDs) from those accounts beginning at age 72.

However, many of you will get a one-year reprieve. Thanks to the SECURE Act 2.0, the RMD starting age has shifted from 72 to 73 for those turning 72 after December 31, 2022. For instance, according to the IRS, if you reached age 72 in 2023, your first RMD for 2024 (the year you reach 73) isn't due until April 1, 2025. And the starting age will increase to age 75 in 2033.

Nevertheless, whenever you start taking them, the RMDs are taxable as ordinary income, whether you have IRAs or a defined contribution plan. The exception is for withdrawals from Roth IRAs, as well as Roth retirement accounts (beginning in 2024), which now will be tax-free until your death.

There is no limit to the number of withdrawals you can make in one year nor to the amount you can take. But if you fail to withdraw the full amount of the RMD by the due date, the SECURE Act also gives you a break on the penalties. It drops the excise tax from 50% to 25% of the amount not withdrawn for 2023 and later years. The penalty is further reduced to 10% if the error is corrected within two years and, in some cases, to zero if you can prove you made a reasonable mistake and make an effort to rectify it quickly.

There are differences depending on which kind of retirement account you have. Among those:

Starting age

IRAs

You generally must start to take RMDs from traditional IRAs, SEP IRAs, and SIMPLE IRAs at age 72 (73 if you reach age 72 after December 31, 2022).

Defined contribution plans

If you are in an employer-sponsored defined contribution plan like a 401(k) or a 403(b), you can delay taking RMDs until the year you retire unless you own 5% or more of the business sponsoring the plan. Additionally, pre-1987 amounts in a 403(b) plan are not subject to RMD rules until you turn age 75 if you can document those contributions were made before 1987.

Both IRAs and defined contribution plans

Your first RMD is due by April 1 of the year following the year you reach your RMD age or retire, with the second RMD following by December 31 of the same year. All subsequent RMDs are due by December 31 of each year.

A reminder

Unless you are still working and have a defined contribution plan, if you were born before December 31, 1950, you have already reached your RMD age. If you were born between January 1, 1951, and December 31, 1959, your RMD age is 73; if you were born after January 1, 1960, it will be 75.

Birth Year	Age At Which RMDs Begin
1950 or earlier	72 (70½ for those who turned 70½ prior to 2020)
1951 – 1959	73
1960 or later	75

Aggregation

IRAs

If you have multiple IRAs, you can calculate the RMD for each separately but then withdraw the total amount from any of your accounts, or distribute it in portions from different IRAs.

Defined contribution plans

If you have more than one, you must calculate your RMDs separately for each plan and withdraw that amount from that plan. There are exceptions if you have more than one 403(b).

Roth Accounts

IRAs

Roth IRAs do not require RMDs during the owner's lifetime. However, beneficiaries of a Roth IRA are subject to the RMD rules after the owner's death.

Defined contribution plans

Some defined contribution plans offer designated Roth accounts. For 2023, RMDs will apply to Roth accounts. But the SECURE Act 2.0 gave you another bonus. Starting in 2024, RMDs will no longer be required from designated Roth accounts while the account owner is alive.

Calculating your RMD

The amount you must withdraw involves dividing your account balance on the previous December 31 by a life expectancy factor published by the IRS in the Uniform Lifetime Table. Use the Uniform Lifetime Table in situations in which your spouse is not the sole designated beneficiary, or if your spouse is the sole designated beneficiary but is not more than 10 years younger than you. There is a separate table (the Joint and Last Survivor Table) for calculations if your spouse is your sole beneficiary and is more than 10 years younger than you.

If you have a defined contribution plan, the company that provided the plan should calculate your RMD for you.

If the account owner died after December 31, 2019, the entire balance must be distributed within 10 years of the death. There are exceptions for surviving spouses, minors, disabled or chronically ill individuals, and for those not more than 10 years younger than the account owner.

Steps to reduce your RMD tax bite

- If you already take RMDs, you can roll some of the money into a Roth IRA, where future withdrawals are tax free. You'll still owe taxes on the initial withdrawal now, but you'll have funds that will grow tax free to use later or to leave to your heirs.
- If you itemize, you can maximize other deductions like charitable contributions or medical expenses to offset the taxes on your RMDs.
- If you have a defined contribution plan, you can keep working to delay the start of RMDs. You can also continue contributing to grow your plan.

Remember, RMDs are just one piece of the retirement puzzle. It's crucial to have a comprehensive financial plan that factors in your income needs, healthcare costs, and desired lifestyle. Diversify your investments, consider inflation, and adjust your plan as needed. Think of yourself as the CEO of your retirement journey. You've built a nest egg; now it's time to manage its distribution wisely. With knowledge, planning, and your KeyBank advisor as your CFO, you can navigate the RMDs and sail smoothly into your golden years.

For more information, please contact your advisor.

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Source: Most of the information in the article comes from the IRS's RMD webpage. You can bookmark that page for easy reference and the latest updates: https://www.irs.gov/retirement-plans/plan-participant-employee/required-minimum-distribution-worksheets

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