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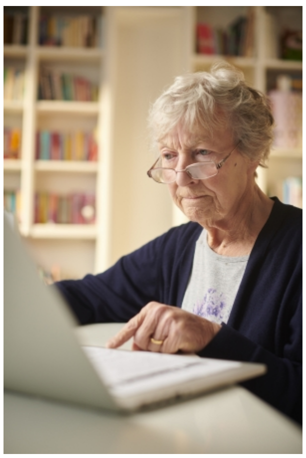
RMD Roundup: A Few Key Updates About Required Minimum Distributions



RMDs are not required from Roth IRAs until after the death of the owner but are required from employer-sponsored Roth accounts.

There is no assurance that working with a financial professional will improve investment results.

As we approach the end of 2021, now might be a good time to take a closer look at a few developments surrounding required minimum distributions (RMDs).

What Are RMDs?

Once you reach age 72, you are required to take minimum distributions from your traditional IRAs and most employer-sponsored retirement plans. (RMDs are not required from an employer plan if you are still working at the company sponsoring the plan and you do not own more than 5% of the company.) You can always take more than the required amount if you choose.

The portion of an RMD representing earnings and tax-deductible contributions is taxed as ordinary income, unless the RMD is a qualified distribution from a Roth account. Failing to take the full amount of an RMD could result in a penalty tax of 50% of the difference.

Generally, RMDs must be taken by December 31 each year. You can delay your first RMD until April 1 following the year in which you reach RMD age; however, you will then need to take two RMDs in one year — the first by April 1 and the second by December 31. (If you reached age 72 in the first half of 2021, different rules apply; see below.)

You may want to weigh the decision to delay your first RMD carefully. Taking two distributions in one year might bump you into a higher income tax bracket for that year.

New RMD Age and a 2020 Waiver Add Complexity

The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 raised the minimum RMD age to 72 from 70½ beginning in 2020. That means if you reached age 70½ before 2020, you are currently required to take minimum distributions.

However, there was a pandemic-related rule change in 2020 that might have affected some retirement savers who reached age 70½ in 2019. To help individuals manage financial challenges brought on by the pandemic, RMDs were waived in 2020, including any postponed from 2019. In other words, some taxpayers could have benefitted from waiving both their 2019 and 2020 RMDs.

Anyone who took advantage of the 2020 waiver should note that RMDs have resumed in 2021 and need to be taken by December 31. The option to delay to April 1, 2022, applies only to first RMDs for those who have reached or will reach age 72 on or after July 1, 2021.

New Life Expectancy Tables

The IRS publishes tables in Publication 590-B that are used to help calculate RMDs. To determine the amount of a required distribution, you would divide your account balance as of December 31 of the previous year by the appropriate age-related factor in one of three available tables.

Recognizing that life expectancies have increased, the IRS has issued new tables designed to help investors stretch their retirement savings over a longer period of time. These new tables will take effect for RMDs beginning in 2022. Investors may be pleased to learn that calculations will typically result in lower annual RMD amounts and potentially lower income tax obligations as a result. The old tables still apply to 2021 distributions, even if they're postponed until 2022.

For more information on RMDs, consider speaking with your financial and tax professionals.