

Age	Additions	Growth	Distributions	Balance	Age	Additions	Growth	Distributions	Balance
68		88,504		1,563,568	66		52,814		933,054
69		93,814		1,657,382	67		55,983		989,037
70		97,628	(60,488)	1,694,522	68		59,342		1,048,379
71		99,753	(63,944)	1,730,331	69		62,903		1,111,282
72		101,792	(67,591)	1,764,532	70		65,460	(40,558)	1,136,184
73		103,729	(71,439)	1,796,822	71		66,885	(42,875)	1,160,194
74		105,544	(75,497)	1,826,870	72		68,252	(45,320)	1,183,126
75		107,219	(79,776)	1,854,313	73		69,551	(47,900)	1,204,777
76		108,730	(84,287)	1,878,756	74		70,768	(50,621)	1,224,924

Silver Financial Planner shows required minimum distributions coming from Tax-Deferred Retirement Accounts.

Retirement Plan Required Minimum Distributions (RMDs)

Tax advantaged retirement plans can and do offer participants great income tax deferral and tax-free growth opportunities; but as they say, all good things must come to an end.

Account owners generally have to start taking withdrawals from tax deferred accounts when they reach 70½. The withdrawals have to be more than a calculated minimum amount, and the amount withdrawn is taxable income except for any parts that were taxed before (non-deferred basis) or are tax-free distributions from designated Roth accounts.

Clients have questions about how RMDs work. Advisors need to show examples of potential withdrawals, and of course everyone wants to properly include tax implications of future withdrawals. RMDs can significantly impact plan success. Explaining and demonstrating RMD detail is important, so all Money Tree retirement illustrations automatically include estimated RMDs throughout the planning process.

Required minimum distribution (RMD) rules apply to IRA, SEP IRA, SARSEPs, SIMPLE IRAs, 401(k), and 403(b) retirement plans. The RMD rules also apply to Roth 401(k), Roth 403(b), and Roth 403(b) accounts. RMD rules do not apply to Roth IRAs while the owner is alive. Inherited IRAs go into different and separate RMD calculations. Roth 401K, Roth 403(b), and Roth 457(b) accounts are subject to RMD requirements, but of course required distributions from these accounts are received tax-free. To avoid RMDs on these kinds of accounts and maintain maximum tax free growth, owners can roll the accounts over to Roth IRA accounts before turning 70½

RMDs must be taken on time, and in at least the correct amount or owners face significant penalties. Annual withdrawals must start the year they attain age 70½ or, if later, the year in which they retire. However, if the account is an IRA or the owner is a 5% owner of the business sponsoring the retirement plan, RMDs must begin at age 70½ regardless. The first RMD payment may be delayed until April 1 of the year following the year one turns 70½. For all subsequent years, including the year of that first payment, RMDs must be taken by December 31st. The penalty for missing or underestimating an RMD payment is 50% of the underpaid RMD amount. If an individual fails to make the correct payment, IRS form 5329 includes both the tax and penalty calculation, as well as a section where owners can explain their error, their corrective steps, and ask for leniency plus relief of the penalty.

Minimum distribution amounts are calculated using account balances of December 31st of the previous year, divided by the distribution period from the correct IRS life expectancy table based on the owner age at the end of the year. Required minimum amounts vary each year as account balances change, and calculated life expectancy drops. Owners are not limited to the minimum amounts, and withdrawals may be taken monthly, quarterly, or however is preferred as long as withdrawals add up to at least the minimum required amount.

IRA owners must calculate the RMD separately for each IRA account, but can withdraw the total RMD amount from any combination of the IRA accounts they wish. RMDs from all other types of retirement plans, such as 401(k) or 457(b) plans have to be calculated and taken from each individual account. RMD withdrawals may not be rolled into another tax-deferred account.

As an example, take an individual turns that 70½ in May. They will still be 70 at the end of the year, so their IRS Table III distribution period is 27.4 years. If the account balance was \$500,000 on December 31st of the previous year, their RMD is \$500,000 divided by 27.4, or \$18,248.18.

RMDs in Planning

In Silver reports, the required minimum distributions show as:

- Income and tax effect on the “Cash Flow Summary” and “Cash Flow” pages
- Additions and tax effect on the “Taxable Savings & Investment Accounts” pages

In Easy Money required minimum distributions show as:

- Withdrawals on the “Five Year Cash Flow” reports
- After tax on the “Retirement Capital Estimate” report
- Withdrawals on the “Asset Accounts” report
- Withdrawals on the “Total Asset Accounts” report
- Withdrawals on the “Withdrawal Rates” report
- Detailed on Appendix pages “Social Security, RMD”, “Retirement Plans”, “Retirement Plan Summary”
- Estimated taxes each year on RMDs are detailed on the “Income Taxes Paid” page

In Golden Years required minimum distributions show on:

- The “Five Year Cash Flow” reports
- The “Cash Flow Illustration” report
- The “Total Working Assets” report
- The “Retirement Accounts” reports
- The “Retirement Plan Summary” report
- The “Taxable Income Analysis” report
- The “Retirement Capital Estimate” report
- The “Withdrawal Rates” report

RMDs shown in the retirement planning illustrations should be seen as estimates only. In some cases, timing will be conservatively estimated, and clients could potentially defer their first year’s withdrawal.

Additional Resources

Here are some resources advisors may find helpful.

RMD Worksheet

You can use this worksheet and distribution table to calculate required withdrawals UNLESS the sole beneficiary is a spouse more than 10 years younger than the owner.

https://www.irs.gov/pub/irs-tege/uniform_rmd_wksht.pdf

RMD Worksheet (Sole beneficiary spouse who is more than 10 years younger)

If the sole beneficiary of account is a spouse and the spouse is more than 10 years younger use this worksheet, and the joint life expectancy table in the second document.

https://www.irs.gov/pub/irs-tege/jlls_rmd_worksheet.pdf

IRS Publication 590-B, Table II (Joint Life and Last Survivor Expectancy) in Appendix B

https://www.irs.gov/publications/p590b#en_US_2017_publink1000231238

For additional information:

<https://www.irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions>