

Required Minimum Distributions (RMDs)

Your Individual Retirement Account (IRA) or qualified employer-sponsored retirement plan grows tax-deferred until you begin making withdrawals.

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Since the retirement account is not meant to be a tax shelter, the Internal Revenue Service (IRS) requires you to begin taking withdrawals from your retirement account once you have attained the age of 73. This amount is called a Required Minimum Distribution (RMD).

WHEN YOU MUST BEGIN

Your RMD is required to begin no later than April 1st of the calendar year following your 73rd birthday. This date is known as your required beginning date (RBD). All subsequent RMD payments are required to be taken by December 31st, and a penalty tax of 25% or 10% if corrected in a timely manner, is imposed on any portion of the RMD amount that is not withdrawn by its due date. Most individuals may opt to take their very first RMD by December 31st of the calendar year in which they turn 73. If you delay that first distribution until April 1st of the following year in which you have attained age 73, you'll have to take two taxable distributions in the same year (the second one by December 31st).

Based on the amount you withdraw; you must pay ordinary income tax on all earnings and deductible contributions at your regular tax rate. If you made any non-deductible contributions to the IRA, you have a basis. These non-deductible contributions are not taxed when they are distributed to you, but they are withdrawn on a pro-rata basis from the IRA.

An important exception to note is that the RMD rules do not apply during the lifetime of the Roth IRA owner. Upon the death of the Roth IRA holder, the Traditional IRA RMD rules apply. The RMD is computed based on the single-life expectancy of the designated beneficiary of the IRA.

CALCULATING YOUR REQUIRED MINIMUM DISTRIBUTION

To calculate your annual RMD amount, simply divide your previous year's December 31 IRA balance by the applicable life expectancy factor that corresponds to your age, which can be found in the IRS Uniform Lifetime table below. Keep in mind though your RMD needs to be recalculated each year.

Your Age	Divisor	Your Age	Divisor	Your Age	Divisor	Your Age	Divisor	Your Age	Divisor	Your Age	Divisor
73	26.5	82	18.5	91	11.5	100	6.4	109	3.7	118	2.5
74	25.5	83	17.7	92	10.8	101	6.0	110	3.5	119	2.3
75	24.6	84	16.8	93	10.1	102	5.6	111	3.4	120+	2.0
76	23.7	85	16.0	94	9.5	103	5.2	112	3.3		
77	22.9	86	15.2	95	8.9	104	4.9	113	3.1		
78	22.0	87	14.4	96	8.4	105	4.6	114	3.0		
79	21.1	88	13.7	97	7.8	106	4.3	115	2.9		
80	20.2	89	12.9	98	7.3	107	4.1	116	2.8		
81	19.4	90	12.2	99	6.8	108	3.9	117	2.7		

Although you only use your age to find your life expectancy factor, the Uniform Lifetime table provides the joint life expectancy factor of you and a beneficiary who is exactly ten years younger than you, even if there is no beneficiary named. The only exception to using the Uniform Lifetime table is if an IRA owner has a spouse, who is the sole beneficiary and she/he is greater than ten years younger, then the Joint Life and Last Survivor table will be used. This will result in a lower RMD, which will allow more of your retirement assets to remain in the IRA growing tax-deferred.

If you have several different Traditional IRA accounts, although you are required to calculate the RMD amount separately for each IRA, you may aggregate those amounts together and take the total RMD from any one or more of your IRAs. If you maintain qualified retirement plans, such as a 401(k), Profit Sharing, Pension or 403(b), the RMD amount must be calculated separately for each account, and the RMD must be withdrawn from the respective retirement accounts. For those individuals, over age 73, who are still employed and participating in your employer-sponsored plan, you generally have until the later of April 1 of the year following the year you turn age 73, or the date in which you retire from the employer who maintains the plan to begin taking your RMD.

EXTEND A LEGACY THROUGH YOUR IRA

By naming a beneficiary to your IRA, you control who inherits your assets after your death. If you fail to name a beneficiary prior to your death, your IRA will generally pass to your estate and will be subject to the applicable state probate laws. Thus, it is important that you have qualified designated beneficiaries—primary and contingent—and to periodically review your IRA beneficiary(ies) designations. By doing so, this will ensure that your IRAs are aligned with your overall estate planning strategy, and your beneficiary can elect a payout that fits with their needs.

REQUIRED MINIMUM DISTRIBUTIONS AFTER DEATH

According to the Final RMD Regulations, the IRA owner's designated beneficiary will be determined based on the beneficiary(ies) listed as of the date of death of the IRA owner, and who remain beneficiary(ies) as of September 30 of the calendar year following the year of the IRA holder's death. The beneficiary distribution options for receiving the IRA assets will depend on two things:

- Beneficiary relationship to the IRA owner – spouse or non-spouse (i.e. children)
- If the IRA owner passed away before, on or after his or her required beginning date (RBD)

If the IRA owner had begun taking RMDs before death, one last distribution will be required using the life expectancy of the IRA owner. In the year following the IRA owner's death, the beneficiary distributions must commence.

Most beneficiaries must fully withdraw the balance of an inherited IRA, and thus recognize the income, by the end of the 10th year, starting in the year after the original IRA owner's death. These new rules apply to all IRA owners that die after December 31, 2019.

However, there are exceptions that allow certain "Eligible Beneficiaries" to avoid the 10-year, anti-stretch, rule. The following individuals may elect to stretch their Inherited IRA within applicable limits, each determined as of the date of the decedent/owner's death:

- Spouses:** A spouse may continue to elect to roll a deceased spouse's IRA into their own, or they may elect to receive an Inherited IRA to be distributed over the course of their life expectancy;
- Minor children:** A minor beneficiary may stretch the Inherited IRA over their life expectancy until they reach the age of majority. However, the 10-year clock starts running upon the attainment of such age, and they must fully withdraw the funds from the Inherited IRA within the 10-year window starting in the year in which the child attains the age of majority;
- Disabled Persons:** Certain individuals with disabilities defined under I.R.C. 72(m)(7) may stretch the Inherited IRA over their life expectancy;
- Chronically ill Persons:** Certain individuals with chronic illness as defined under I.R.C. 7702B(c)(2) with certain required certifications made may stretch the Inherited IRA over their life expectancy; and
- Persons Close in Age:** A person who is not more than 10 years younger than original IRA owner may stretch the Inherited IRA over their life expectancy.

The anti-stretch provision drastically changes how your advisors will view IRAs as a wealth transfer vehicle. Strategies have changed and it is imperative that you work with your advisors to thoughtfully consider your options when naming beneficiaries and, perhaps, taking steps during your lifetime to change the tax status of a portion of your Traditional IRAs.

In the past, a common estate planning technique for IRA owners with sizable IRA values has been to establish long-term trusts for their children and naming the trust as the beneficiary of their retirement accounts. These trusts could include “conduit provisions,” to allow for the Inherited IRA payments to be stretched over the lifetime of the trust’s beneficiary (child), by requiring that all retirement account distributions to the trust (the required minimum distribution amount and any other distribution from the Inherited IRA), be further distributed outright to the beneficiary. This offered the best of both worlds: tax deferral for the beneficiaries, and protection of the principal. However, now that the SECURE Act requires a 10-year payout, conduit provisions may cause the rapid depletion of an important trust asset, while negating the spendthrift and creditor protection over substantial trust funds. It will become important for retirement account owners to consider their primary goals in estate planning with their accounts.

Regardless of your goals, it is imperative that you review the beneficiary designations on all of your accounts, with your advisors, to identify new planning opportunities and minimize unintended consequences.

BAIRD CAN HELP

Keep in mind that tax laws related to IRAs are complex, and each person’s situation is unique. Supported by Baird’s team of retirement planning specialists, your Baird Financial Advisor can help you calculate your annual RMD amounts as well as discuss the importance of naming an IRA beneficiary to ensure an appropriate distribution strategy that is in line with your overall estate and financial planning goals.