WHEN THE RMD CLOCK STARTS TICKING

YOUR REFERENCE GUIDE TO REQUIRED MINIMUM DISTRIBUTIONS (RMD)

Tax-deferred retirement savings accounts such as Traditional IRAs are a great way to enjoy potential investment growth while delaying paying taxes. But Uncle Sam isn't going to wait forever to collect his tax bill. When you turn 70½, the IRS requires you to start withdrawing money from your IRAs. These mandatory, annual withdrawals are called required minimum distributions, commonly known as RMDs. It's important to understand how RMDs work because the rules can be complex, and failure to follow them could result in big penalties.

Failure to take an RMD may result in a 50% penalty on the amount that should have been withdrawn. But with the right insights, timing and mindset, it all can go smoothly onward into retirement and to your benefit.

And a reminder, RMDs are subject to taxation and other rules. Consult with your financial professional to make sure you have the information you need to satisfy IRS requirements for RMDs.

57%
of employed workers envision a flexible transition into retirement[1]

RMD TIMELINE

The following timeline illustrates when RMDs are required.

Jan. 1, 2016

First Distribution Year:
The year you turn age 70½. The RMD for the first "distribution year" can be taken during that year, or delayed until your required beginning date.

August 1
You turn age 70½ (hypothetically).

Jan. 1, 2017

April 1 Required Beginning Date:
April 1 of the year following your first distribution year. The RMD for the first distribution year can be deferred until the "required beginning date."

Dec. 31, 2017

December 31
An RMD for the next distribution year, and each year thereafter, must be taken by December 31 of that year. If the first RMD is deferred until the following year, two RMDs must be taken in that tax year.

Nearly $10 trillion
The amount Baby Boomers have in tax-deferred savings accounts.[2]

DON'T NEED THE MONEY RIGHT AWAY?

If you think you are in good financial shape and don't need your RMD right way, you have some options:

REINVEST YOUR RMD

Although you have to take RMDs from your traditional IRA, you don't have to spend them. Depending upon your retirement income objectives, your RMD may exceed the amount you want to spend. Reinvesting some or all of your RMD may be important to maintaining a sustainable withdrawal strategy over the course of your retirement.

BUY LIFE INSURANCE

If you don't need or want some or all of your RMD, talk to your financial professional about establishing a legacy for your loved ones through the purchase of life insurance.

DONATE YOUR RMD TO CHARITY

Through a Qualified Charitable Distribution (QCD), IRA owners over the age of 70½ can gift IRA funds directly to a qualified charity without including them in income for the year.* The QCD counts toward your RMD for the year and is capped at $100,000 per individual.

ELIMINATE YOUR RMD

Roth IRAs are not subject to RMDs for owners. Although a conversion from a traditional IRA to a Roth IRA will be subject to taxation, you might want to discuss the tax implications of converting a traditional IRA to a Roth IRA with your financial professional.

UNDERSTAND HOW RMDS IMPACT YOUR RETIREMENT OBJECTIVES

Because RMDs are forced distributions from your traditional IRA, be sure to work with your financial professional to understand how the annual calculation of RMDs and the tax implications of such distributions will potentially impact your income strategy in retirement.

RMD TERMINOLOGY FOR TRADITIONAL IRAS

FIRST DISTRIBUTION YEAR:

As a traditional IRA owner, this is the first year that you need to calculate an RMD for the year in which you turn age 70½. The calculation is based on the December 31 balance of the prior year, divided by your IRS life expectancy factor. This calculation will determine how much you need to withdrawal from your IRA for each distribution year.

REQUIRED BEGINNING DATE:

You must take your first RMD for the year in which you turn age 70½. However, the first RMD payment can be delayed until April 1 of the year following the year in which you turned age 70½. For all subsequent years, including the year in which you may have deferred the first RMD payment until April 1, you must take an RMD by December 31 of that year.

IRS TABLE III – UNIFORM LIFETIME TABLE:

IRS table used by owners to calculate their RMD (*IRS Publication 590*). The factor changes each year as you get older. The age used in determining your life expectancy is the age you are on December 31 of the distribution year.

IRS TABLE II – JOINT LIFE TABLE:

The IRS table for use by owners who have a spouse beneficiary who is more than 10 years younger (IRS Publication 590). Spouse beneficiary must be the sole beneficiary.

[1] *"Retirement Preparations in a New Age of Self-Employment, Aegon Retirement Readiness Survey", transamericacenter.org, 2016.*
[2] *"Baby Boomers and Required Minimum Distributions," bnymellon.com, March 2016.*

*QCDs from inherited IRAs are eligible if the beneficiary is over age 70½. SEP and SIMPLE IRAs are not eligible.

Withdrawals of taxable amounts are subject to ordinary income tax and, if taken prior to age 59½, a 10% additional federal tax may apply.

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