Western & Southern Financial Group

Quick Reference: Three Keys to RMDs

R — Regulate

RMD rules are complex. Any shortfall is subject to a 50% penalty. Clients can regulate their RMDs, that is, "bring order, method, or uniformity" to them with a "fix it and forget it" strategy utilizing the automatic payouts of a single premium immediate annuity (SPIA).

Fix It and Forget It with a SPIA

Different rules apply to funds in IRAs and defined contribution plans that are annuitized. The IRS generally considers the purchase of a SPIA to satisfy RMD obligations if the annuity is not payable over a period extending beyond the life expectancy of the IRA owner (and, if applicable, designated beneficiary) and meets certain other requirements.

Annual calculations are not required. However, the annuity payout will only satisfy the RMD rules for the funds in the IRA annuity. The income payouts cannot be used to satisfy RMDs for non-annuitized IRA funds in any year other than the year of the transfer.

M — Minimize

RMDs can be minimized by converting pre-tax amounts in traditional IRAs to Roth IRAs to the extent it can be done at lower rates. With income tax rates set to increase after 2025, a series of partial conversions (staying within current tax brackets) by pre-retirees can reduce the balance in their traditional IRAs and thus reduce their RMDs in future years.

Income Tax Rates Reduced for Now

Roth IRAs may make even more sense now after tax reform. With income taxes temporarily reduced, it may make sense to contribute directly to Roth IRAs. It may even make sense for IRA owners to convert amounts in traditional IRAs to the extent they can do so in lower brackets. IRA owners who expect that they and their beneficiaries will always be in a very high tax bracket may want to convert their entire IRA as quickly as they can.

It's important to consider the effect of any conversion and increased adjusted gross income on applicable capital gains tax rates, Social Security benefits taxation and Medicare premiums.

D — Delay...

Roth IRAs

Consider contributing to Roth IRAs and converting traditional IRAs into Roth IRAs to delay RMDs until after the death of the IRA owner. Designated Roth accounts [401(k) and 403(b)] are subject to RMD rules during lifetime. Rolling those amounts into Roth IRAs delays the need for RMDs from them until after the death of the Roth IRA owner.

OR

Distribute Early...

Traditional IRAs

Explore distributing early (during lifetime) from traditional IRAs to fund life insurance for tax-advantaged wealth transfer or converting such amounts to Roth IRAs. A traditional "delay" strategy can produce higher overall RMDs and a potentially higher tax bracket in retirement, as well as leaving a larger tax burden on beneficiaries.

IRAs vs. DC Plans: RMDs at a Glance

Required Minimum Distributions (RMDs) for Account Owners

	IRAs including SEP, SIMPLE and SARSEP	Defined Contribution Plans
How long can the first RMD be delayed?	Until April 1 of the year after the year age 72 is attained. By that date the account owner must take the first RMD, regardless of whether they are still employed.	Until April 1 of the year after the later of the year age 72 is attained or the year of retirement (if allowed by plan). A 5% owner must start RMDs by April 1 of the year after the year age 72 is attained.
When must annual RMDs (after the first) be taken?	By Dec. 31 of each year, beginning with the calendar year containing the required beginning date (RBD).	Same as the IRA rule.
How is the RMD calculated?	Generally by dividing the adjusted market value of the IRA(s) as of Dec. 31 of the preceding year by the distribution period that corresponds with the owner's age in the Uniform Lifetime Table (Table III in IRS Publication 590). If a spouse is sole beneficiary and more than 10 years younger, the Joint Life and Last Survivor Expectancy Table (Table II in IRS Publication 590) is used.	Same as the IRA rule. The plan sponsor/ administrator should calculate the RMD.
How are RMDs taken if there are multiple accounts?	When there are multiple IRAs, the RMD for each must be calculated separately each year. However, the RMDs for all of them may be totaled and that amount may be withdrawn from one (or more) of them. A separate RMD is not required to be withdrawn from each IRA.	When there are multiple defined contribution plans, RMDs must be calculated and satisfied separately for each. Each plan's RMD must be withdrawn from that plan. Exception: When there are multiple 403(b) tax-sheltered annuity (TSA) accounts, the RMDs can be totaled and then taken from any one (or more) of them.
May more than the RMD be taken?	Yes, an IRA owner can always withdraw more than the RMD. Excess withdrawals cannot be applied toward future years.	Same as the IRA rule.
May multiple withdrawals be taken in a year to meet the RMD?	The annual RMD may be withdrawn in any number of distributions throughout the year, as long as the total annual minimum amount is withdrawn by Dec. 31 (or April 1 if it is a first RMD).	Same as the IRA rule.
What if the RMD isn't taken?	An additional tax equal to 50% of the undistributed RMD for that year is owed.	Same as the IRA rule.

Source: Adapted from IRS.gov, "RMD Comparison Chart (IRAs vs. Defined Contribution Plans)," accessed Jan. 12, 2022.

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