

UNDERSTANDING REQUIRED MINIMUM DISTRIBUTIONS

Learning how, why and when to withdraw money from your retirement accounts can save you from penalties.

WHAT EXACTLY IS A REQUIRED MINIMUM DISTRIBUTION?

A required minimum distribution or RMD is the amount that the federal government requires you to withdraw each year – usually after you reach age 70½ – from retirement accounts, including traditional IRAs, simplified employee pension (SEP) IRAs and SIMPLE IRAs, as well as many employer-sponsored retirement plans.

The RMD is designed to ensure that you withdraw at least a portion of the funds in your account over your lifetime – and that you pay taxes on those funds. Failure to withdraw the required minimum will result in a potentially hefty penalty: The amount not withdrawn is taxed at 50%.

FOR EXAMPLE

If the RMD on your traditional IRA is determined to be \$8,000 in 2017, but you withdraw only \$3,000 during calendar 2017, you will be subject to an excise tax of \$2,500, or 50% of the amount by which your RMD exceeds your actual distribution.

INCOME TAX IMPLICATIONS

RMDs are generally subject to federal income tax – taxed at ordinary rates – and may also be subject to state taxes. However, distributions that reflect after-tax contributions may not be taxable. Consult your tax advisor to assess your situation.

IN OTHER WORDS

The RMD distribution rule means that if you delay your first distribution into the following year, you will be required to take a second distribution before the end of the year. For instance, if you reached 70½ on May 15, 2017, you can take your first distribution any time between that date and April 1, 2018. However, regardless of when you take your first distribution, you must take your second distribution by December 31, 2018.

KNOW WHEN TO TAKE YOUR RMD

You must make your initial required distribution no later than April 1 following the year in which you turn 70½, unless you are 1) still working, 2) still participating in your employer's retirement plan and 3) own no more than 5% of the company. If you are still working, you may defer distributions in your company plan until after retirement; this is optional, but your plan must allow this provision.

If you meet all three of the conditions above, you can generally delay taking distributions until April 1 following the calendar year in which you retire, and subsequent distributions must be taken by December 31 of each calendar year for the rest of your life or until your account balance is zero. However, if you are still working past 70½, you cannot delay taking an RMD from an IRA (or previous employer plan). This option is only available for employer-sponsored retirement plans if you are currently still working there. You may be able to rollover old employer plans into your current plan.

CALCULATING YOUR RMD

The amount you are required to withdraw from a retirement plan subject to RMD requirements is usually based on your account balance as of December 31 of the year prior to the calendar year during which the distribution must be made.

To determine how much you must withdraw in a given year, divide your account balance at the previous year's end by the amount indicated in the Uniform Lifetime Table below, provided by the IRS.

UNIFORM LIFETIME TABLE

AGE	DISTRIBUTION PERIOD	AGE	DISTRIBUTION PERIOD	AGE	DISTRIBUTION PERIOD
70	27.4	86	14.1	102	5.5
71	26.5	87	13.4	103	5.2
72	25.6	88	12.7	104	4.9
73	24.7	89	12.0	105	4.5
74	23.8	90	11.4	106	4.2
75	22.9	91	10.8	107	3.9
76	22.0	92	10.2	108	3.7
77	21.2	93	9.6	109	3.4
78	20.3	94	9.1	110	3.1
79	19.5	95	8.6	111	2.9
80	18.7	96	8.1	112	2.6
81	17.9	97	7.6	113	2.4
82	17.1	98	7.1	114	2.1
83	16.3	99	6.7	115	1.9
84	15.5	100	6.3		
85	14.8	101	5.9		

IN OTHER WORDS

Whether the balance in your account on December 31 of the prior year is \$10,000, \$50,000 or \$100,000, to determine the required minimum distribution, divide that number by the appropriate distribution period as indicated in the Uniform Lifetime Table. (If your spouse is more than 10 years younger than you, see the “What is the younger spouse rule.”)

FREQUENTLY ASKED QUESTIONS

Which plans are subject to RMD rules?

Many retirement plans, including most IRAs (such as traditional IRAs, SEP IRAs and SIMPLE IRAs), pension, stock bonus and profit-sharing plans such as 401(k), Section 457(b) and Section 403(b) plans are subject to the RMD requirement.

In some cases, for example, accounts can be aggregated and the distribution can be taken from a selected account if desired. Talk to your plan administrator or tax professional for more information.

Are all IRAs subject to RMD?

No, Roth IRAs are exempt during the owner’s lifetime; however, non-spouse beneficiaries are subject to RMDs.

What is the “younger spouse” rule?

If your spouse is your sole designated beneficiary and is more than 10 years younger than you, your RMD may be determined by using the joint life expectancy of you and your spouse. That means you will be able to take your RMDs using the divisors published by the IRS as the Joint Life and Last Survivor Expectancy table. Those figures will give you a longer payout period than that indicated in the Uniform Lifetime Table.

What happens if I have more than one traditional IRA or employer retirement plan subject to RMD?

Your RMD is calculated separately for each IRA subject to a required minimum distribution. However, the total amount can be withdrawn from a single account or from a combination of accounts in a balance you select. You may wish to discuss the best strategy for taking your distributions with your tax and financial advisors.

If you have multiple employer retirement plans, keep in mind that your RMD is calculated separately for each plan and must be withdrawn from that plan. However, like plans may be aggregated and the distribution taken from one account. Consult your tax advisor for more information.

How is my designated beneficiary affected by RMD?

Your designated beneficiary or beneficiaries will typically be required to take minimum distributions from the account. However, if your spouse is the beneficiary and has not yet reached 70½, he or she generally may delay taking distributions by rolling over an inherited IRA or employee plan into an IRA under his or her own name.

In addition, non-spouse beneficiaries could take distributions over their own life expectancies, and a trust beneficiary may be able to take distributions based on the age of the oldest trust beneficiary.

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