When do I take a Required Minimum Distribution?

Required Minimum Distributions, or RMDs, are minimum amounts you must withdraw annually from your tax-deferred retirement account. The IRS requires you to start taking withdrawals from traditional IRAs and employer-sponsored retirement plans once you reach age 73* (or in some cases, after you retire).

The RMD rules are designed to spread out the distribution of your entire interest in an IRA or plan account over your lifetime. The purpose of the RMD rules are to ensure that people don't just accumulate retirement accounts, defer taxation, and leave these retirement funds as an inheritance. Instead, RMDs generally have the effect of producing taxable income during your lifetime.

Each RMD withdrawal is taxed at your current income tax rate. **The penalty for failing to take your RMD is a 25% tax on the amount that should have been withdrawn (or 10% if the RMD is taken by the end of the second year following the year in which it was supposed to be taken).** The penalty is in addition to regular income tax.

Be careful about taking two withdrawals in the same year. Withdrawals from IRAs are taxed as income, and two withdrawals in the same year could significantly increase your income tax bill. Keep in mind, though, that a yearly RMD does not have be taken in a single withdrawal — it can be taken through multiple cumulative withdrawals during the year.

Which retirement savings vehicles are subject to the RMD rules?

- All employer-sponsored retirement plans, including profit-sharing, 401(k), 403(b), and 457(b) plans
- Traditional IRAs and IRA-based plans such as SEP and SIMPLE IRAs
- The RMD rules do not apply to Roth IRAs, but do apply to inherited Roth IRAs.

When must RMDs be taken?

Your first required distribution from an IRA or retirement plan is for the year you reach age 73. However, you have some flexibility as to when you actually have to take this first-year distribution. You can take it during the year you reach age 73, or you can delay it until April 1 of the following year.

Since this first distribution generally must be taken no later than April 1 in the year following the year you reach age 73, this April 1 date is known as your required beginning date. Required distributions for subsequent years must be taken no later than Dec. 31 of each calendar year until you die, or your balance is reduced to zero. This means that if you opt to delay your first distribution until April 1 of the following year, you will be required to take two distributions during that year — your first year's and your second year's required distributions.

There is one situation in which your required beginning date can be later than described above. If you continue working past age 73 and are still participating in your employer's retirement plan, your required beginning date under the plan of your current employer can be as late as April 1 following the calendar year in which you retire (if the retirement plan allows this and you own 5% or less of the company). Again, subsequent distributions must be taken no later than Dec. 31 of each calendar year.

How are RMDs calculated?

Generally, the RMD is calculated for each account by dividing the prior year-end balance of the retirement plan account by a life expectancy factor that the IRS publishes; the Uniform Lifetime and Single Life tables are the most commonly used.

Example: You have a traditional IRA and waited until the age of 73 to start your withdrawals.

IRA Value	$300,000
IRS Life Expectancy Factor	26.5
Annual RMD Calculation	$300,000/26.5
Annual RMD Distribution	$11,320.75

Should you delay your first RMD?

Your first decision is when to take your initial RMD. Remember, you have the option of delaying your first distribution until April 1 in the year following the calendar year in which you reach age 73 (or April 1 following the calendar year in which you retire, in some cases).

You might delay taking your first distribution if you expect to be in a lower income tax bracket in the following year, perhaps because you're no longer working or will have less income from other sources. And, if you wait until the following year to take your first distribution, your second distribution must be made on or by Dec. 31 of that same year.

Receiving your first and second RMDs in the same year may not be in your best interest. Since this "double" distribution will increase your taxable income for the year, it will probably cause you to pay more in federal and state income taxes. It could even push you into a higher federal income tax bracket for the year. In addition, the increased income may cause you to lose the benefit of certain tax exemptions and deductions that might otherwise be available to you. So the decision of whether to delay your first required distribution can be important and should be based on your personal tax situation.

Can you satisfy the RMD rules with the purchase of an annuity contract?

Your purchase of an annuity contract with the funds in your IRA or retirement plan satisfies the RMD rules if all of the following are true:

- Payments are made at least yearly.
- The annuity is purchased on or before the date that distributions are required to begin.
- The annuity is calculated and paid over a time period that does not exceed those permitted under the RMD rules.
- Payments, with certain exceptions, are non-increasing.

You may also be able to use up to 25% of your non-Roth IRA and retirement plan account balances (up to a maximum of $125,000 from all accounts, indexed for inflation) to purchase a qualifying longevity annuity contract (or QLAC). The value of the QLAC is disregarded when you calculate the amount of RMDs you are otherwise required to take from your account each year. Payments from the QLAC can be delayed up to age 85 and are treated as satisfying the RMD rules when paid. The rules can be complicated, and QLACs are not right for everyone, so be sure to consult a qualified professional for further information. (Note: Any annuity guarantees are subject to the claims-paying ability and financial strength of the annuity issuer.)

For more information on tax topics related to RMDs, please view these resources:

- Your Guide to Required Minimum Distributions
- Guide to 72(t) Distributions From an IRA
- Your Guide to Inherited IRAs
- Guide to Stretch IRAs
- Guide to Stretch IRAs for Non-spousal Beneficiaries

For more information about taking RMDs, contact your financial professional or call Security Benefit at 800.888.2461.

* SECURE Act 2.0 updated the RMD age rule, which now applies to account owners who turn 73 on Jan. 1, 2023, or later.

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