



Required Minimum Distributions

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Required Minimum Distributions

As we approach the end of the calendar year, it is important to be reminded about one frequently overlooked retirement plan requirement. Upon attainment of age 70-1/2, certain participants of a tax-qualified retirement plan may be required by federal tax law to withdraw a minimum amount from such plan each year. These mandatory distributions are known as “required minimum distributions” (“RMD(s)”).

Depending upon the terms of the specific retirement plan, RMDs must begin to be withdrawn by April 1 of the year following the later of: 1) the year you attain age 70 1/2; or 2) the year you retire, provided you are not a 5% or greater owner of the business. For years after the initial RMD is made, the requisite RMD amount must be withdrawn by December 31 of each year. This includes the calendar year after an individual attains age 70 1/2, even if the first RMD is withdrawn during that same year. If an RMD is not withdrawn by the applicable deadline or is withdrawn in less than the full required amount, the amount not withdrawn is subject to a 50% excise tax.

An RMD amount is calculated by dividing the value of the retirement account of the affected individual as of December 31 of the immediately preceding calendar year by a life expectancy factor prescribed by certain IRS Tables. There are three different tables that could be employed. The Joint and Last Survivor Table is used if the sole beneficiary of the account is a surviving spouse and the spouse is more than 10 years younger than the participant. The Uniform Lifetime Table is utilized if the surviving spouse is not the sole beneficiary or is not more than 10 years younger than the participant. Finally, the Single Life Expectancy Table is used in certain circumstances by a beneficiary if the participant has died.

Here is an example using the Uniform Lifetime Table:

1. Account balance on December 31 of the previous year
\$55,000
2. Appropriate value from Uniform Lifetime table (age 79)
19.5
3. Line 1 divided by number entered on line 2 = your RMD for this year
\$2,820.51

The following Required Minimum Distribution Decision Tree chart is provided as a courtesy to assist you in determining whether a specific set of circumstances requires the withdrawal of RMDs.



Required Minimum Distribution Decision Tree

