

RMD PRECAUTIONS AND OPTIONS

Meeting your obligations and finding some opportunities.

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After you turn 70½, the IRS requires you to withdraw some of the money in your retirement savings accounts each year. These withdrawals are officially called Required Minimum Distributions (RMDs).¹

While you never have to make withdrawals from a Roth IRA, you must take annual RMDs from traditional, SEP and SIMPLE IRAs, pension and profit-sharing plans and 401(k), 403(b) and 457 retirement plans annually past a certain age. If you don't, severe financial penalties await.¹

If you are still working as an employee at age 70½, you don't have to take RMDs from a profit-sharing plan, a pension plan, or a 401(k), 403(b) or 457 plan. Your initial RMDs from these accounts will only be required after you retire. However, you must take RMDs from these types of accounts if you own 5% or more of a business sponsoring such a retirement plan.²

You must take RMDs from IRAs after you turn 70½ regardless of whether you are still working or not.²

The annual deadline is December 31, right? Yes, with one notable exception. The IRS gives you 15 months instead of 12 to take your first RMD. Your first one must be taken in the calendar year after you turn 70½. So if you turned 70½ in 2011, you can take your initial RMD any time before April 1, 2013. However, if you put off your first RMD until next year you will still need to take your second RMD by December 31, 2013.¹

Calculating RMDs can be complicated. You probably have more than one retirement savings account. You may have several. So this gets rather intricate.

- *Multiple IRAs.* Should you have more than one traditional, SEP or SIMPLE IRA, the annual RMDs for these accounts must be calculated separately. However, the IRS gives you some leeway about how to withdraw the money. You can withdraw 100% of your total yearly RMD amounts from just one IRA, or you can withdraw equal or unequal portions from each of the IRAs you own.
- *401(k)s and other qualified retirement plans.* A separate RMD must be calculated for each qualified retirement plan to which you have contributed. These RMD amounts must be paid out separately from the RMD(s) for your IRA(s).
- *Inherited IRAs.* The same applies; a separate RMD must be calculated for each inherited IRA you have, and these RMD amounts must be paid out separately from RMD(s) for your other IRA(s).¹

This is why you should talk to your financial or tax advisor about your RMDs. It is really important to have your advisor review all of your retirement accounts to make sure you fulfill your RMD obligation. If you skip an RMD or withdraw less than what you should have, the IRS will find out and hit you with a stiff penalty: you will have to pay 50% of the amount not withdrawn.²

Are RMDs taxable? Yes, the withdrawn amounts are characterized as taxable income under the Internal Revenue Code. Should you be wondering, RMD amounts can't be rolled over into other tax-deferred accounts and excess RMD amounts can't be forwarded to apply toward next year's RMDs. ²

What if you don't need the money? If you are wealthy, you may come to see RMDs as an annual financial nuisance, but the withdrawal amounts may be redirected toward opportunities. While putting the money into a savings account or a CD is the usual route, there are other options with potentially better yields or objectives. That RMD amount could be used to:

- Start a grandchild's education fund.
- Fund a long term care insurance policy.
- Leverage your estate using life insurance.
- Diversify your portfolio through investment into stock market alternatives.

There are all kinds of things you could do with the money. The withdrawn funds could be linked to a new purpose.

So to recap, be vigilant and timely when it comes to calculating and making your RMD. Have a tax or financial professional help you, and have a conversation about the destiny of that money.

Citations.

1 – www.hartfordinvestor.com/servlet/Satellite?c=Page&cid=1284290138050&pagename=Investor%2FPage%2FCommon
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2 - www.irs.gov/retirement/article/0,,id=96989,00.html#8 [1/5/12]