6 Things You Must Know About Required Minimum Distributions (RMD's)

Written by Danette Lowe, CFP®

When it comes to retirement accounts, many investors often fail to think about required minimum distributions, or RMDs. RMD's are the amounts you must withdraw from your IRA or Retirement Account once you reach 70 ½. An oversight in withdrawing can lead to unnecessary tax burdens and other financial issues. In order to handle RMDs effectively, here are 6 things you should know:

- **The first year is different -** If you turn 70 on or before June 30, then you are required to take your first RMD. The difference is that you don't need to take the first withdrawal until April 1st of the following year. Important point – the second and subsequent years you are required to take your withdrawal by December 31. So if you delay the withdrawal the first year, then you will end up with a double withdrawal the following year and that could increase your income taxes.
- **How your RMD is calculated -** The amount you need to withdraw each year is calculated by dividing your prior December 31 retirement account value by factor from the appropriate life expectancy table. Most individuals will use the Uniform Lifetime Table. However, if your only beneficiary is a spouse that is more than 10 years younger than you, you may choose the Joint and Last Survivor table which will result in a lower withdrawal.
- **Steep Penalty for failure to withdraw -** The penalty for not withdrawing all of your RMD is 50% of the amount you fail withdraw. If your RMD is $4000.00 and you failed to withdraw it the 50% penalty would equal $2,000. Generally the amount you withdraw is treated as ordinary income, except if you have after-tax contributions, which is less common. So the tax consequences of withdrawing the RMD will always be less than the penalty.
- **You don't have to withdraw cash -** If you have an investment like a mutual fund and you are satisfied with its performance, then you can remove the appropriate number of shares to cover your RMD. The RMD amount will be calculated as the closing market value and won't be exactly to penny. Just make sure the market value is slightly higher than the RMD amount. The advantage is you won't incur a sales charge to sell and then another to buy back in the regular account.
- **If you have more than one IRA** - As long as you withdraw the total amount you are required to it doesn't matter which one you use. So if you have 3 IRA's they will each have their own minimum. Just add all three minimums together to get your total. You can then decide which one of the three it makes sense to withdraw from.
- **Maybe you should take out more than the minimum** –Depending on your tax bracket you may be able to withdraw more than minimum without being taxed. I've seen clients take out 2 – 3 times their minimum without increasing their income tax. Work with your CPA to make that calculation.

Even though the rules are specific in terms of when and how much, by taking a proactive approach and knowing the above guidelines, you will be able to stay on the right track with your retirement planning. Remember to be sure you're withdrawing at least the minimum, and if you have multiple IRA's it is OK to take the entire distribution from just one of them. You can find additional information regarding RMDs on the IRS website at www.irs.gov. For this and other financial and retirement planning topics, visit our website at www.trunorthwealth.com.

About Danette Lowe, CFP®
Danette Lowe focuses her practice on helping families prepare for retirement through Comprehensive Financial Planning and Proactive Investment Management.

TruNorth Wealth Management, LLC
TruNorth Wealth Management, LLC provides individuals and business owner's financial guidance and group insurance services. Located at 1700 County Rd., Minden, Nevada 89423 the firm prides itself on crafting unique strategies for each client. For more information, please call (775) 364-0010 or visit www.trunorthwealth.com.

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