Required Minimum Distributions (RMDs)

What Every Retiree Needs to Know

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WHAT EVERY RETIREE NEEDS TO KNOW ABOUT REQUIRED MINIMUM DISTRIBUTIONS

The fact that you're reading this booklet quite likely means that you were born in or around 1950. Having been a serious retirement saver up to this point, you may have been surprised when you learned the time has come for you to experience RMDs — Required Minimum Distributions.

RMDs are mandatory withdrawals from qualified retirement plans, generally (but not always) triggered in the year you turn 70½.

Like most things relative to your money and taxes, it's important that you understand the rules governing RMDs, so we'll be digging into those rules in Part I of this booklet.

And there's another aspect of RMDs that also deserves your serious attention. If you only get one thing out of reading this guide, it should be this: *Your financial future – and the financial future of those you love – can be either enhanced or diminished by what you do with RMDs. It's smart to consider the best use of the funds you are being forced to take out – instead of simply depositing the RMDs into a bank account.*

Yes, you're being forced to take out a specific sum of money, but what to do with it is up to you—and we'll dig into some very smart solutions to that question in Part II of this booklet.

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But first, it's important to consider your financial goals. So take a moment now to think about your 70th and 71st birthdays – and all the ones that come after them – all golden opportunities to achieve financial goals. We're talking about the goals you hold in high regard at this point in your life. For many people, this list will include:

- *Legacy planning – leveraging the amount of money left to one's heirs*
- *Never running out of money – by increasing lifelong guaranteed income*
- *Having a way to pay for long-term care and to fund dependency if care is needed. Avoiding erosion due to estate taxes or other taxes.*

Who would've thought that RMD disbursements would allow you to make some very smart, strategic financial decisions?

We call this the RMD Challenge. Join us as we explore together how your financial future can benefit when you meet the RMD Challenge!

(continued on next page)

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PART 1 What are RMDs

Required Minimum Distributions (RMDs) are minimum amounts that the owner of a retirement plan must annually withdraw.

The rules for taking RMDs apply to all employer-sponsored retirement plans. These include:

- Profit-sharing plans
- 401(k) plans (including Roth 401(k)s)
- 403(b) plans
- 458(b) plans

The rules for taking RMDs also apply to all IRA plans and IRA-based plans, except for Roth IRAs. These include:

- Traditional IRAs
- SEPs
- SARSEPs
- SIMPLE IRAs

Exception: *Roth IRAs*
As long as a Roth IRA owner is still alive, this type of plan is not subject to RMD rules.

When do I have to take an RMD?

Your first Required Minimum Distribution must be taken in the year when you turn age 70½ or the year in which you retire, if that happens in a later year.

Exception: *IRAs*
RMDs from an IRA must begin at age 70½, even if the account owner is still working.

If you are retired, you can delay taking the first payment until April 1 of the year that follows the year you turn 70½. You must take RMDs in all subsequent years by December 31 of the year. If you delay taking your first payment, that means you will have two years' worth of RMDs taken in the second year.

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Exception: *403(b) pre-1987 contributions*
Different deadlines can apply to RMDs from a 403(b) plan, if the plan has contributions made prior to 1987. Subject to certain conditions, the pre-1987 amounts don't need to be distributed until the year in which the participant turns age 75, or even later if the participant is still working. The participant has until April 1 of the year after the calendar year in which he retires before distributions must be taken. The pre-1987 amounts apply not only to contributions, but also to their earnings or gains.

Exception: *Business owners*
If you are a 5% owner of the business that sponsors the retirement plan, your RMDs must start at age 70½, whether or not you are retired.

How do I calculate my RMD?

Although the office that holds or administers your account usually calculates the RMD, the account owner is ultimately responsible for calculating the RMD amount.

Here's how you calculate it: Looking at the correct table, find what we call your "RMD divisor," which is a function of your age during the year. For most people, the correct table is called the Uniform Lifetime Table (found in Appendix A of this booklet). The exceptions are for:

- Those with spouse beneficiaries who are more than 10 years younger (covered below);
- Those who are the beneficiaries of an inherited IRA (inherited RAs are not addressed in this booklet).

To get this year's RMD, take your account balance on December 31 of last year and divide it by this year's RMD divisor from the table. The RMD divisor will change each year, since it is a function of your life expectancy. The resulting number is your RMD for the current year.

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Let's look at an example:

Doris is a widow who turns 73 this year. The balance in her retirement account on 12/31 of last year was $200,000. Looking up her age in the Uniform Lifetime Table (found in Appendix A of this booklet), we find that Doris' RMD divisor is 24.7.

Dividing her year-end account balance of $200,000 by 24.7, we come up with Doris' required minimum distribution for this year: $8,097.17.

> Exception: *Much younger spouses*
> *If your spouse is your sole beneficiary and is more than 10 years younger - their life expectancy is factored into your RMD. You will use the Joint and Last Survivor Table shown in Appendix B in this booklet. Using that table, in the year the account owner is 75 and their 60-year-old spouse is the sole beneficiary, the RMD divisor is 30.9.*

Remember that the RMD calculations result in the minimum contribution required. An account owner can withdraw more than the RMD. However, keep in mind that an excess-of-RMD distribution in one year cannot be applied toward the RMD for a future year.

Taxation of RMDs

The distribution is taxed at the account owner's income tax rate.

> Exception: *Basis and some Roth IRA distributions*
> *If your distribution is a return of basis, it is received tax free. If your RMD is a qualified distribution from a Roth IRA, it is received tax free.*

What are the penalties for not taking an RMD?

The penalty for non-compliance is stiff: 50% taxation of the amount that should have been withdrawn.

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PART 2 The RMD Challenge: How to deploy your RMD for the maximum benefit!

When we say maximum benefit, we mean the maximum benefit that you can get by taking a sum of money out of one account and putting it to work elsewhere immediately — in order to attack your remaining retirement goals and concerns.

Most of us save diligently for retirement. Our goal is accumulation. We take great satisfaction in the nest egg we're building. However, as the years go by, our goals can change. Just when you thought it might be too late to enhance your retirement plan and legacy, those RMDs you are being forced to take can fund some very attractive solutions.

The IRS says that RMD amounts cannot be rolled over into another tax-deferred account. So the options we talk about below steer clear of that idea. But RMD amounts can be taken and used to purchase tax-favored financial products. We're talking about products renowned for their ability to provide a windfall-like sum of money exactly when estate taxes need to be paid!

Before we learn what RMDs can do, let's take a moment to reconsider financial goals: earlier, we listed a few such goals in very general terms, but now we're going to drill down a little more, to look at your specific goals, the ones that are important to you.

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How RMDs Can Be Used To Meet Your Financial GOALS Now

GOAL Maximize the Inheritance I Leave

Sometimes we realize that we don't actually need all of our saved money for monthly budget needs. We may plan on passing that money along to a child, grandchild, niece or nephew. RMDs undermine that plan, eroding the inheritance we leave. However, when we use RMD money to purchase a life insurance policy, we can not only restore our bequests to pre-RMD values, but in some cases it becomes possible to leave an inheritance well beyond what we ever imagined. And since life insurance proceeds are tax-free, the impact of that planning decision is even more powerful.

Didn't think that people age 70+ bought life insurance? Well, they do – because it often makes good sense. Imagine it: your required minimum distribution turbo-charging an inheritance!

GOAL Maximize My Guaranteed Lifetime Income – Starting Now

Longer lifespans have understandably caused more people than ever to worry about outliving their assets. Depending on your age, health, and financial situation, it may make sense to deploy your RMDs to purchase an immediate annuity. Immediate annuities are powerhouses that turn a static lump of money into a guaranteed income stream that you can't outlive.

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GOAL Protect My Nest Egg Against the Cost of Dependency and Extended Care

As we age, many of us gain an appreciation for the importance of long-term care planning. After all, we didn't work hard all those many years to see our savings be depleted by care costs – in other words, by the cost of funding dependency.

Traditional long-term care insurance still provides the maximum amount of long term care benefit for the minimum premium investment – a great combination for those who have never bought long term care insurance. Or, it can be a great choice for current long-term care policyholders who are concerned their existing plan isn't substantial or comprehensive enough. While it almost never makes sense to replace an old long-term care insurance policy, it can often make sense to supplement one. If you've never put long-term care protection into place, that may be the best way for you to use your RMD.

GOAL Maximize Inheritance While also Providing Money for Long-Term Care

Sometimes you can have your cake and eat it too. Asset-based long-term care insurance is usually a base life insurance contract, with long-term care insurance (LTCI) attached. When funded by RMDs, it can truly be a sweet story.

Imagine this: A woman uses her RMDs to purchase an asset-based LTCI policy. If she passes away without ever needing long-term care, her beneficiary receives an amount much larger than the total of the RMDs

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taken. And, if long-term care is needed, the woman collects far more than the premium funded by the RMDs. Investors love this you-don't-lose-it-if-you-don't-use-it type of long-term care planning option.

GOAL Tame the Estate Tax!

You've undoubtedly done everything you can to minimize estate taxes. And yes, that bill will be due once you and your spouse are gone. Wouldn't it be wonderful if your RMDs could be used to pay those taxes? Here's how it can be done: the RMD provides the cash to purchase a second-to-die life insurance policy that pays at the demise of the second spouse...exactly when the estate tax bill is due.

If you haven't seen a proposal recently for second-to-die life insurance, you will be pleasantly surprised to realize it is a highly cost-efficient type of coverage. This policy is the product of choice for savvy estate planners nationwide.

GOAL Minimize Today's Tax And Maximize My Guaranteed Lifetime Income

If you don't need your RMDs for current living expenses, and would rather use that money to boost your guaranteed lifetime income down the road, you will want to know about a relatively new development in retirement income planning. Created by the U.S. Treasury Department in 2014, the tool is called a QLAC, which stands for Qualified Longevity Annuity Contract.

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QLACs are a deferred income annuity that can only be funded with assets from a traditional IRA or an eligible employer-sponsored qualified plan. At time of purchase, you select an income start date (no later than age 85), and the amount invested is removed from RMD calculations. There are two limitations: total lifetime contributions can't exceed $125,000, and QLAC contributions can't exceed 25% of the funding source's value. A QLAC may be the cure for what is ailing your retirement plan(s).

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Appendix A   Uniform Lifetime Table   [called Table III]

Source: https://www.irs.gov/publications/p590b/

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

Appendix B   Joint and Last Survivor Table (partial)   [called Table II]

The complete Table II is too large to show here. Instead, we show you an example.
Source: https://www.irs.gov/publications/p590b/

Ages	60	61	62	63	64	65	66	67	68	69
60	30.9	30.4	30.0	29.6	29.2	28.8	28.5	28.2	27.9	27.6
61	30.4	29.9	29.5	29.0	26.6	28.3	27.9	27.6	27.3	27.0
62	30.0	29.5	29.0	28.5	28.1	27.7	27.3	27.0	26.7	26.4
63	29.6	29.0	28.5	28.1	27.6	27.2	26.8	26.4	26.1	25.7
64	29.2	28.6	28.1	27.6	27.1	26.7	26.3	25.9	25.5	25.2
65	28.8	28.3	27.7	27.2	26.7	26.2	25.8	25.4	25.0	24.6
66	28.5	27.9	27.3	26.8	26.3	25.8	25.3	24.9	24.5	24.1
67	28.2	27.6	27.0	26.4	25.9	25.4	24.9	24.4	24.0	23.6
68	27.9	27.3	26.7	26.1	25.5	25.0	24.5	24.0	23.5	23.1
69	27.6	27.0	26.4	25.7	25.2	24.6	24.1	23.6	23.1	22.6
70	27.4	26.7	26.1	25.4	24.8	24.3	23.7	23.2	22.7	22.2
71	27.2	26.5	25.8	25.2	24.5	23.9	23.4	22.8	22.3	21.8
72	27.0	26.3	25.6	24.9	24.3	23.7	23.1	22.5	22.0	21.4
73	26.8	26.1	25.4	24.7	24.0	23.4	22.8	22.2	21.6	21.1
74	26.6	25.9	25.2	24.5	23.8	23.1	22.5	21.9	21.3	20.8
75	26.5	25.7	25.0	24.3	23.6	22.9	22.3	21.6	21.0	20.5

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