

Required Minimum Distributions

Lifetime Distributions from IRAs and Qualified Plans

Both traditional IRAs¹ and qualified retirement plans enjoy significant federal tax benefits.² Contributions are generally tax deductible and growth inside an account is tax-deferred. Federal law requires that certain amounts be paid out, generally beginning with the year an account owner turns age 73.³ Funds become taxable when distributed.

- **Required minimum distributions (RMD):** These are the specified, minimum withdrawals that an account owner must make. The account owner is free to take larger amounts if desired.
- **Required beginning date:** This is the date by which an account owner must begin to make his or her required minimum distributions.
- **Penalty tax:** If the owner does not make distributions that are large enough, or if distributions are not made at all, a penalty tax of 25% of the amount that should have been distributed is generally due. The penalty tax is reduced to 10% if the taxpayer promptly corrects the error.⁴

Item	Traditional IRAs	Qualified Plans
Required beginning date	By April 1 of the year following the year you attain age 73.	By April 1 of the year following the later of (a) the year you reach age 73, or (b) the year you retire. More than 5% owners must begin to receive distributions by April 1 of the year following the year they reach age 73.
Initial distributions	If a required first withdrawal for 2023 is made by April 1, 2024, the required distribution for 2024 must be made by December 31, 2024. In effect there are two taxable distributions made in 2024. Each year thereafter, a distribution is required on or before December 31.	

¹ For required minimum distribution purposes “traditional IRAs” include SIMPLE IRAs and SEP IRAs. Roth IRAs are subject to different rules.

² This discussion concerns federal law only. State or local law may vary.

³ Under the SECURE 2.0 Act of 2022, the age to begin RMDs increases to (1) age 73 for those who turn 72 after 2022 and 73 before 2033; and (2) to age 75 for those who turn 74 after 2032. Previously, age 72 was the mandated age to begin RMDs.

⁴ Applicable to required minimum distributions after December 29, 2022. Under prior law, the penalty tax was 50% of the amount that should have been distributed.

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Item	Traditional IRAs	Qualified Plans
More than one IRA or qualified retirement plan	If an individual has more than one IRA, the required minimum distribution must be determined for each IRA. However, the total required distribution may be made from any one or a combination of the IRAs. The IRAs may not be aggregated with employer-sponsored qualified retirement plans.	Generally, each plan must make its own separate required minimum distribution.
Other	The minimum distribution rules do not apply to Roth accounts during the owner's lifetime.	Qualified plans include TSA 403(b), Keogh, 401(k), SIMPLE 401(k), and pension and profit sharing plans.

Calculating Required Minimum Distributions¹

The actual amount that must be distributed each year is determined using:

- The balance in the account as of the previous December 31, and;
- The age of the account owner (and spouse, if married) at the end of the year.

The required minimum distribution is calculated by dividing the account balance by a theoretical life span taken from life expectancy tables provided by the Internal Revenue Service (IRS). The life expectancy table used will vary depending on the age of the account owner and, if married, his or her spouse. An individual's marital status is determined as of January 1 of the calendar year. The following examples use life expectancies taken from the tables generally effective January 1, 2022. See Treasury Decision 9930, November 5, 2020.

Single owner/spouse no more than 10 years younger: An IRA owner, age 75, has \$100,000 in an IRA as of December 31 of the prior year. The required minimum distribution for the current year would be \$4,065.04, (\$100,000 divided by 24.6). The divisor of 24.6 is taken from the Uniform Lifetime Table for an individual age 75. The calculation is the same for a single individual or a married individual with a spouse no more than 10 years younger than the IRA owner.

¹ The rules reviewed here are those contained in the final regulations issued by the Treasury Department on April 16, 2002, in Treasury Decision 8987. Annuity contracts providing benefits under qualified plans, individual retirement plans, and IRC Sec. 403(b) contracts are subject to special rules. See Treasury Decision 9130.

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Spouse more than 10 Years Younger¹: If the participant's spouse is more than 10 years younger than the participant, the minimum distribution factor used in calculating the required minimum distribution is found in the Joint and Last Survivor Table.

An IRA owner, age 75, has \$100,000 in the IRA as of December 31 of the prior year. His wife is age 63. The required minimum distribution would be \$3,831.42, \$100,000 divided by 26.1, the Joint and Last Survivor Table factor for an owner age 75 and a spouse age 63.

Seek Professional Guidance

Given the complex and frequently changing nature of tax law, individuals faced with the need to make required distributions from IRAs or qualified retirement plans should seek the guidance of qualified professionals.

¹ The spouse must be the sole beneficiary of the account.

Disclosure Notice

The information that follows is intended to serve as a basis for further discussion with your financial, legal, tax and/or accounting advisors. It is not a substitute for competent advice from these advisors. The actual application of some of these concepts may be the practice of law and is the proper responsibility of your attorney. The application of other concepts may require the guidance of a tax or accounting advisor. The company or companies listed below are not authorized to practice law or to provide legal, tax, or accounting advice.

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