OPAL
WEALTH ADVISORS

Understanding Required Minimum Distributions (RMDs)

If you're nearing age 73 and have money in a traditional IRA, 401(k) or some other type of retirement account, it's important to be prepared for required minimum distributions (RMDs).

These withdrawals, which must be taken every year starting at age 73, will go on top of any other income you generate annually, which could easily push you into a higher tax bracket. Without a thoughtful strategy in place to soften their impact, RMDs can take a toll on an otherwise sound retirement plan. Yet many retirees fail to properly plan for the tax implications of RMDs. (And some aren't even aware RMDs exist.)

This guide will provide an overview of RMD basics, including what they are, how they're calculated and what the penalties might be if you ignore them or get the amount wrong. But if you still have questions about RMDs, your Opal financial advisor can offer more information and specific recommendations based on your individual needs. You also may find information at www.irs.gov.

What Is an RMD?

The IRS doesn't allow savers to keep money in their retirement accounts indefinitely. Once you turn 73, you must begin withdrawing a minimum amount annually (determined by an IRS formula) and pay ordinary income taxes on that money. These mandated withdrawals are called required minimum distributions (RMDs). And failing to take the correct distribution at the appropriate time can result in a penalty on the amount you were supposed to withdraw.

Currently, the RMD rules apply to all tax-advantaged plans except Roth IRAs, because those account owners already have paid taxes on their contributions. (Lifetime RMDs for Roth accounts inside employer-sponsored plans will soon be eliminated as well; but that change won't take effect until the 2024 tax year.)

If you leave your retirement account to your beneficiaries, they, too, will have to take withdrawals based on IRS rules (even if the account is a Roth). And they, too, could face a penalty—or "excise tax"—if they don't take the distributions as required. So RMDs are something you and your loved ones should keep in mind whenever you're doing any income, tax or estate planning.

WHEN DO YOU HAVE TO START TAKING RMDS?

For many years the starting age for RMDs was 70½. Then in 2019, the SECURE Act changed that milestone age to 72 for anyone born on or after July 1, 1949.

Now, thanks to 2022's SECURE 2.0, the starting age has changed again, to 73 for anyone born on or after Jan. 1, 1951. And a decade from now, in 2033, it will get another bump, to age 75.

If you see information in a brochure or online that still states the current RMD starting age as 70½ or 72, it may be dated or aimed at retirees born before 1951. Going forward, a taxpayer's first RMD will be due on April 1 of the year following the calendar year in which he or she turns 73.

So, for example, if you turn 73 on Jan. 1, 2024, your first RMD will be due on April 1, 2025—unless you're still working. If you're still employed and you own less than 5% of the company you work for, the IRS will allow you to delay taking RMDs from your workplace retirement plan (if your plan allows it). However, if you own other retirement accounts outside your workplace, you'll still have to calculate RMDs on those.

After that first year, you must withdraw your RMDs by Dec. 31 each year. That means you could have two withdrawal dates in your first year of RMDs: the April 1 withdrawal, and another on Dec. 31. If you want to avoid doubling up, you can make your first withdrawal by Dec. 31 of the year you turn 73 instead of waiting until April 1 of the following year. This would allow you to separate the income from the distributions into two different tax years.

How Is an RMD Calculated?

IRS Uniform Lifetime Table

AGE OF RETIREE	DISTRIBUTION FACTOR
73	26.5
74	25.5
75	24.6
76	23.7
77	22.9
78	22.0
79	21.1
80	20.2
81	19.4
82	18.5
83	17.7
84	16.8
85	16.0
86	15.2
87	14.4
88	13.7
89	12.9
90	12.2
91	11.5
92	10.8
93	10.1
94	9.5
95	8.9
96	8.4
97	7.8
98	7.3
99	6.8
100	6.4

Source: irs.gov.

THE FORMULA FOR CALCULATING YOUR RMD:

$$\frac{\text{End-of-year account value}}{\text{Uniform Lifetime Table factor}} = \text{RMD}$$

To calculate your RMD for the current year, you'll divide your account balance on Dec. 31 of the previous year by the distribution factor next to your age on the IRS Uniform Lifetime table (left).

Let's say you're turning 73 in 2024 and you had $250,000 in a traditional IRA on Dec. 31, 2023. Your RMD would be about $9,434. ($250,000 divided by the 26.5 distribution factor for someone who is 73.)

That's the minimum amount you would have to withdraw from that particular account by April 1, 2025, to avoid a penalty. If you have other retirement accounts, you'd repeat that calculation to determine how much to withdraw from each.

If you have more than one traditional IRA, you can then add the minimum amounts together and withdraw the total from one or more of your accounts. The rules are different, though, for employer plans (401(k)s, 403(b)s, etc.). If you have multiple employer plans, the RMD from each must be separately calculated and withdrawn. (Remember: You do not have to take an RMD from your current employer's plan until you retire, unless you own 5% or more of the company.)

The IRS Uniform Lifetime table assumes a life expectancy based on the account owner's age and an assumed beneficiary who is 10 years younger. If your spouse is your sole beneficiary and is more than 10 years younger than you, you would use the IRS Joint Life and Last Survivor Expectancy table to determine your distribution factor. You can find that table and more information on how to use it at www.irs.gov.

You can, of course, withdraw more than your RMD in any given year. But you cannot take less.

What Happens If You Fail to Take an RMD?

If you don't take an RMD, or if your distribution is incorrect and not large enough, you may have to pay an excise tax on the amount that wasn't distributed as required. SECURE 2.0 reduced that penalty tax from 50% to 25%—and if the mistake is fixed during a two-year "correction window," the penalty may be further reduced to 10%. Still, that penalty is on top of the original income tax amount, so it's important to make timely and accurate withdrawals each year.

If you believe you missed the RMD deadline due to a reasonable cause, you can ask the IRS to waive the excise tax in a letter of explanation that you attach to your tax return along with IRS Form 5329. (You can view PDFs of Form 5329 and the form's instructions at www.irs.gov.)

How Do RMDs Work for Beneficiaries?

The rules for when account beneficiaries must take RMDs vary based on the person's relationship to the account holder.

Spouse beneficiaries: A spouse who inherits a retirement account usually has more flexibility than other beneficiaries when it comes to determining when RMDs might begin and how they'll be calculated. (Which also can make things more complicated.)

If you are a spouse beneficiary, you can:

- Name yourself as the account owner;
- Roll the assets into your own IRA; or
- Transfer the assets to an inherited IRA.

Several factors could determine which of those options you might choose as the surviving spouse, and when you might have to take RMDs from the account, including your age and if the original account holder was already taking RMDs. If the distribution is from a workplace retirement plan, the plan document will establish the RMD rules, and the plan administrator should provide you with that information.

Depending on your individual circumstances and choices, your RMD payout period may be as short as five years or as long as your life expectancy. And the IRS table you use to calculate your RMDs also may vary. An Opal advisor can help you look at the pros and cons to each of your decisions within the framework of your evolving needs and goals.

Non-spouse beneficiaries: Until recently, a beneficiary could take RMDs from an inherited IRA based on his or her own life expectancy and spread out the withdrawals (and any taxes due on those withdrawals) over decades. The SECURE Act, which passed in 2019, takes away this option for non-spouse beneficiaries of IRAs as well as 401(k)s and other defined contribution plans. Most beneficiaries will be required to empty their inherited account and pay the taxes within 10 years of their loved one's death. (This change doesn't affect spouses, beneficiaries who are disabled or have a chronic illness, minor children or those who are within 10 years of the age of the deceased. These beneficiaries are called "eligible designated beneficiaries." See next page.)

Without careful planning, your adult children could end up having to take the RMDs from an inherited IRA during their highest-earning years, which might push them into a higher tax bracket. If you want to leave a problem-free legacy, it may make sense for you to come up with a new strategy. For example, you could take the money out of your IRA now, pay the taxes on it yourself, and convert the money

to a Roth account for your children to inherit. (Non-spouse inheritors must empty a Roth within 10 years, as well, but those distributions are tax-free as long as the account holder held the assets in the Roth for at least five years prior to death.) Your Opal financial advisor can share other ways to reduce the impact RMDs might have on your family.

Eligible designated beneficiaries: Disabled beneficiaries, chronically ill beneficiaries, beneficiaries who are not more than 10 years younger than the decedent, and the IRA owner's minor children are considered "eligible designated beneficiaries." This means they can use their own single life expectancy to calculate their annual RMDs. When minor children reach the age of majority (defined as 18), however, they must switch over to the 10-year rule set by the SECURE Act.

Other beneficiaries: If you don't have a designated beneficiary—or if your beneficiary is a trust, charity or estate (in other words, entities that don't have a life expectancy)—and you die before your RMDs begin, the account's assets must be distributed within five years.

It's important to note that beneficiaries face the same penalty for missing or underpaying RMDs as original account holders, which is 50% of the amount that was required but wasn't withdrawn.

WHAT ARE SOME OTHER PLANNING STEPS TO CONSIDER?

It might be difficult to predict exactly how much your RMDs will be from year to year as you move through retirement—or how much they might impact your taxes. But you can take some steps now to prepare. Here are a few things to consider:

Consolidating to a single IRA. Consolidating multiple accounts into one IRA could make calculating your RMDs easier and reduce the chances that you'll overlook something or make an error. Remember: The penalty for taking out less than your full RMD may be 50% of the amount that was required but wasn't withdrawn. Consolidating also could make it easier to track and manage your assets and reduce fees.

Timing your RMDs. Just as many Americans put off doing their taxes until the last possible day, retirees often delay taking their RMDs until they're due at the end of the year. (Once you get past the grace period on your first RMD, they're due on Dec. 31.) The problem with waiting is it can box you in, and you might have to sell investments in a down market. Instead, you may want to take withdrawals over the course of the year, or earlier in the year, if that timing works better for your needs.

Make a plan for the added income. You must withdraw RMDs every year, but you aren't required to spend the money. You may wish to:

- Put the money in a savings account and use it to pay the tax bill;
- Reinvest the money in a taxable brokerage account. (You aren't allowed to reinvest RMDs in any type of retirement account (even a Roth), but you can put the money into a taxable brokerage account and continue to earn a return.);
- Use it to buy life insurance;
- Invest in a 529 savings plan for a younger family member; or
- Look at a qualified charitable donation strategy as a way to give the money to your favorite charities.

LOOKING FOR MORE INFORMATION?

RMDs might not be an issue at all if you already expected to withdraw the IRS's required amount—or more—to cover your annual living expenses. But if your RMD amount will have an impact on your retirement this year and going forward, it's time to look at your options. The rules are complex, and mistakes can be costly.

The IRS website, www.irs.gov, offers information and guidance regarding the overall RMD regulations. But if you want or need more specific advice, the team at Opal Wealth Advisors can help you better understand your individual situation. And we can offer strategies to help keep your income, tax and estate planning on target. Contact us at **888-703-OPAL** or schedule a free consultation today.

KEY TAKEAWAYS

- If you have a traditional IRA, 401(k) or some other type of qualified retirement plan, you must take required minimum distributions (RMDs) every year beginning at age 73.
- Your initial RMD will be due on April 1 of the year following the calendar year in which you turn 73. After that, RMDs must be withdrawn by Dec. 31.
- You don't have to wait until April 1 to take your first RMD. To avoid having two withdrawal dates in the first year of RMDs, you can make your first withdrawal by Dec. 31 of the year you turn 73.
- RMDs are calculated by dividing your end-of-year account balance by the IRS's Uniform Lifetime Distribution Factor (available here and at www.irs.gov).

- The RMD rules for traditional IRAs are different than those for employer plans. If you have multiple retirement accounts, you should be sure you're making withdrawals according to IRS rules.
- You can withdraw more than the required amount in any given year, but you cannot take less. There are significant penalties if you make a mistake or miss the deadline.
- The RMD rules for account beneficiaries vary based on the person's relationship to the original account holder.
- There is no IRS requirement to take RMDs from a Roth IRA while the original owner is living. However, there are requirements for account beneficiaries.
- If you continue working past 73, you may be exempt from taking RMDs from your workplace account.
- There are multiple strategies that can help savers plan for and possibly reduce the amount of their RMDs. Contact Opal Wealth Advisors for more information.

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