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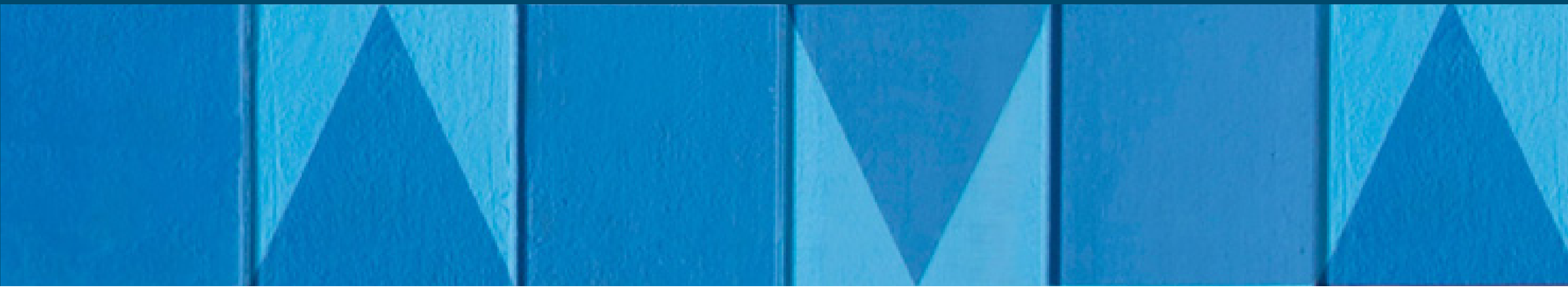


What are the Required Minimum Distribution Rules for Lifetime Distributions After the SECURE Act?

Situation: On December 20, 2019, Congress passed the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) which significantly altered the RMD rules. Financial representatives who have clients that own IRAs, or participate in qualified retirement plans, know that their clients must take distributions from their accounts according to the required minimum distribution rules. The required minimum distribution (RMD) rules mandate the timing and minimum amount of IRA and retirement plan distributions during the lifetime of the owner and after his or her death. It's important that clients comply with the rules because the penalty for failing to satisfy the minimum distribution requirements is 50% of the amount that should have been taken, but was not.

In addition, the IRS recently proposed an update to the tables used to calculate the required minimum distributions. The proposed tables would apply for distribution calendar years, beginning January 1, 2021. The tables reflect longer life expectancies than the current tables and so would provide smaller annual RMDs. As a result of the recently enacted RMD changes, I've received requests for guidance on how the RMD rules work. This Counselor's Corner answers the following questions:

1. **What plans must comply with the new RMD rules?**
2. **When must an individual begin to take plan distributions?**
3. **What amount must be distributed to avoid the 50% penalty?**
4. **How do the proposed new distribution tables impact lifetime distributions?**

Solution: Let's start by being clear on what plans are subject to the RMD rules. The minimum distribution requirements apply to traditional IRAs (including SEPs and SIMPLEs), defined benefit plans, defined contribution plans (such as 401(k) plans, ESOPs and profit sharing plans), Section 403(b) tax-sheltered annuities, eligible Section 457(b) plans, and Roth accounts. In contrast, Roth IRAs are not subject to the lifetime minimum distribution requirements, but beneficiaries must receive minimum distributions after the death of the Roth IRA owner.

When Must an Individual Begin Distributions? Required Beginning Date (RBD).

Most of the SECURE Act deals with post-death minimum distribution rules, but there is one change to the lifetime rules – a delay in the starting date known as the required beginning date. The SECURE Act changes this to age 72. For IRA owners and plan participants who are 5% or more owners, the required beginning date is April 1st of the year following the year the owner reaches 72. In contrast, plan participants who are not 5% or more owners and for 403(b) participants, the required beginning date is typically April 1st of the year after the later of: (a) the year the participant reaches age 72 or (b) the year the participant retires. It should be noted that the April 1st required beginning date only applies to the RMD for the first year.

When to Use Age 70½ or 72?

The new rules apply to individuals who did **not** reach age 70½ by December 31, 2019, individuals born after June 30, 1949. So, an individual who reached age 70½ in 2019 cannot wait until age 72 to begin RMDs. The event time has been triggered and the individual must begin taking RMDs by April 1, 2020.

Specifically,

- If you are retired and your 70th birthday was June 30, 2019, you reached age 70½ on December 30, 2019. You must take your first RMD (for 2019) by April 1, 2020, and your second RMD (for 2020) by December 31, 2020.
- If you are retired and your 70th birthday was July 1, 2019, you reached age 70½ on January 1, 2020. You do not have an RMD for 2019. You must take your first RMD for 2021, when you turn 72, by April 1, 2022.

When Must an Individual Take RMDs? First Year & Beyond.

As indicated above, you have until April 1st of the following year after reaching age 72 to begin taking your first RMD. However, this April 1st deadline only applies to the RMD for the first year. Every year thereafter, a participant must take distributions by December 31st.

- John turns 72 on August 20, 2021. He has until April 1, 2022, to take his first RMD which would be based on his 2020 year-end balance.
- If John waits until April 1st to take his mandated distribution, he will still have to take an additional withdrawal by December 31, 2022, based on his 2021 year-end balance.

What Amount Must be Distributed to Avoid 50% Penalty? Calculating RMDs.

The rules as set forth below apply to plans with individual accounts. Defined benefit plans and amounts payable as an annuity are subject to different minimum distribution calculations.

The amount required to be distributed is determined by dividing the account balance by a life expectancy factor taken from the Uniform Lifetime Table (found on page four). The account balance is determined as of the end of the prior year (December 31st, or the last valuation date).

The first required distribution is for the calendar year in which the participant reaches age 72, but it is not due until April 1st of the following year. Ordinarily, the second distribution is due by December 31st of the same year. Of course, if the participant already began RMD and/or turned 70½ in 2019, then they must continue to take RMDs in the same manner as before the SECURE Act.

Example 1.
Marjorie reached age 72 on September 1, 2020. Her IRA balance at the end of 2019 was $500,000. Her life expectancy factor in 2020, taken from the current Uniform Lifetime Table, is 25.6 years. Her required distribution for 2020 would be $19,531 ($500,000/25.6), due no later than April 1, 2021. In addition, Marjorie would need to take a second distribution by December 31, 2021 based on her 2020 end of the account balance.

Exception: Joint Life Expectancy.

The distribution amounts required during the owner's lifetime generally are not affected by the identity of the beneficiary. However, there is one exception to this rule: if the owner/participant's spouse is named as beneficiary and is more than 10 years younger than the owner, distributions can be calculated using a joint-and-survivor table that takes the longer second life into account.

Example 2.
Assume Marjorie in the example above was married to Bob, who turned 55. Instead of a life expectancy factor of 25.6, their joint life expectancy is 30.8 years. Marjorie's first required distribution would be $16,234 ($500,000/30.8). Her required beginning date and subsequent distribution dates would not change.

Multiple Plans or IRAs.

If an individual owns multiple IRAs of the same type (e.g., traditional IRAs to which contributions have been made) he or she may combine required distribution amounts and take the entire amount from one account. IRAs of different types, such as Roth IRAs and inherited IRAs, may *not* be combined for this purpose. In addition, the required distribution for each qualified plan in which an individual participates must be calculated separately and taken from that plan. However, if an individual participates in more than one tax-sheltered 403(b) annuity, the required distributions for the 403(b) accounts may be combined and taken from one account.

Proposed Changes to Tables Used to Calculate Required Minimum Distribution.

In addition to the recently enacted changes to the RMD rules, the IRS has proposed an update to the tables used to calculate the required minimum distributions. The proposed tables reflect longer life expectancies than the current table. This would provide smaller annual RMDs. The proposed tables would apply for distribution calendar years beginning on or after January 1, 2021. It's important to note that distribution calendar year is the year which the RMD relates and not necessarily the year in which it's paid.

For example, an initial RMD is due April 1st the year after an individual reaches age 72, but subsequent RMDs are due by each December 31st. For an individual who attains age 72 in 2020, the new tables would not apply to the 2020 RMD due April 1, 2021, but would apply to the 2021 RMD due December 31, 2021.

The traditional maxim for retirement savings was to use IRAs, 401(k), and other qualified plans to lower one's current tax obligation, defer them in the present and stretch the withdrawal using the lifetime required minimum distribution. By doing so, the maximum amount could be left in the account to grow tax-deferred. After the SECURE Act, this strategy is still available for lifetime distributions of the account owner. However, except for a small group of eligible beneficiaries, non-spouse beneficiaries will no longer be able to spread distributions over their life expectancy.

While the lifetime "stretch" of the retirement account owner has long been an incredibly effective strategy in the financial professional's toolbox, this may no longer be the case. Retirement account owners can minimize the impact of the SECURE Act's changes by employing a variety of different strategies ranging from simple solutions like increaseing Roth conversions to more complex approaches. Thus, perhaps the most important thing a financial professional can do right now is to educate their clients on the changes recently enacted and proposed and present various strategies that can help them accomplish their goals.

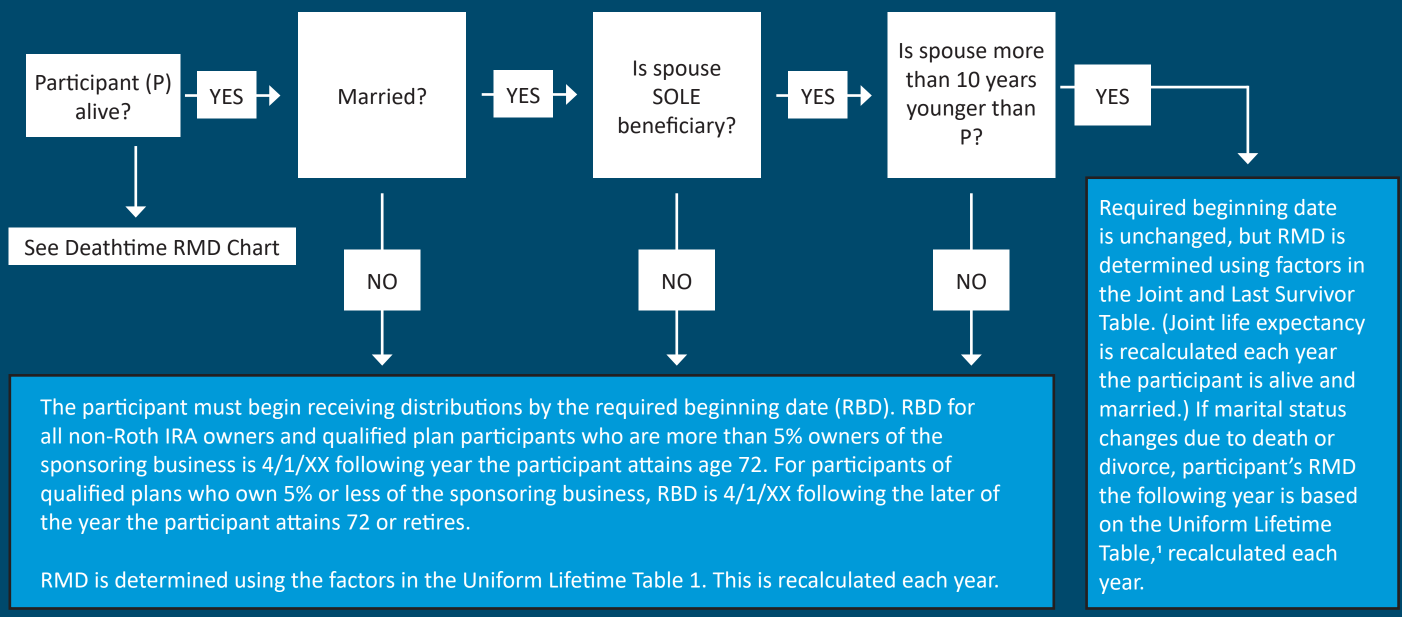
Uniform Lifetime Table.

The table that follows is used to calculate lifetime minimum required distributions. For owner/participants with a spouse more than 10 years younger and who named their spouse as the beneficiary, a different table (Joint and Survivor Table VI, set forth in Treas. Reg. §1.401(a)(9)-9) may be used instead.

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

Proposed Uniform Lifetime Table			
Age	Distribution Period	Age	Distribution Period
70	29.1	96	8.3
71	28.2	97	7.8
72	**27.3**	98	7.3
73	26.4	99	6.8
74	25.5	100	6.4
75	24.6	101	5.9
76	23.7	102	5.6
77	22.8	103	5.2
78	21.9	104	4.9
79	21.0	105	4.6
80	20.2	106	4.3
81	19.3	107	4.1
82	18.4	108	3.9
83	17.6	109	3.7
84	16.8	110	3.5
85	16.0	111	3.4
86	15.2	112	3.2
87	14.2	113	3.1
88	13.6	114	3.0
89	12.9	115	2.9
90	12.1	116	2.8
91	11.4	117	2.7
92	10.8	118	2.5
93	10.1	119	2.3
94	9.5	120+	2.0
95	8.9		

Required Minimum Distributions During Participant's Lifetime



Participant's Lifetime.

During his or her lifetime, each participant (P) (with one exception) must use the Uniform Lifetime Table (recalculated each year) to calculate required minimum distributions (RMDs). The only exception is where P's spouse is more than 10 years younger and the spouse is the sole beneficiary of the plan account. In this case, the RMD is calculated using the Joint and Last Survivor Table.

To calculate a participant's RMD:	
Step 1: Determine the value of the retirement plan account on the last day (or last valuation date) of the preceding year.	*Example:* Assume that on December 31 of the year immediately preceding the year P turned 72, P's account value was $274,000.
Step 2: Determine the distribution period factor in the Uniform Lifetime Table using the age that the participant will attain by the end of the applicable year.	P's first distribution is due for the year in which P reaches age 72. The factor for age 72 is 25.6. The first year distribution may be delayed until April 1 of the following year.
Step 3: Divide the account value in Step 1 by the factor in Step 2 for the RMD amount.	$274,000 ÷ 25.6 = $10,703; thus, the RMD for the first year is $10,703 which may be delayed until April 1 of the following year.
Step 4: Repeat Steps 1 through 3 each year, using a new distribution factor for each year.	Assume the account balance at the end of the following year is $285,000. The factor for age 73 is 24.7. The RMD for the second year would be ($285,000 ÷ 24.7) or $11,538.46.

[1]The life expectancy tables can be found at the following sources: *Single Life Table* (see page 3): Treas. Reg. §1.401(a)(9)-9, A-1. *Joint and Last Survivor Table*: Treas. Reg. §1.401(a)(9)-9, A-3. Uniform Lifetime Table (see page 3): Treas. Reg. §1.401(a)(9)-9, A-2.