



Recent Modifications to Required Minimum Distribution Rules for Lifetime Distributions

Situation: Financial representatives know that clients who own IRAs or participate in qualified retirement plans must take distributions from their accounts according to the required minimum distribution (RMD) rules. The RMD rules mandate the timing and minimum amount an IRA owner and retirement plan participant must distribute both during life and after his/her death. Clients must comply with the rules because failing to satisfy the minimum distribution requirements results in a penalty of 50% of the amount that should have been taken but was not.

Financial professionals might be surprised to learn that the amount required to be distributed recently changed. On February 23, 2022, the Treasury released proposed regulations that amend the RMD rules to conform to the statutory changes made by the SECURE Act enacted in 2019.¹ The regulations contained a few surprises. In addition, the IRS updated the tables used to calculate required minimum distributions. The new tables apply to distribution calendar years beginning January 1, 2022. The tables reflect longer life expectancies than the previous tables and so provide smaller annual RMDs. As a result of these changes, I thought it important to review how the new RMD rules work.

This Counselor's Corner will address minimum distribution requirements during the lifetime of the participant. Next month we will describe the more complex rules concerning required distributions after the death of the participant.

Solution: Let's start by being clear on what plans are subject to the RMD rules. The RMD rules 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, 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 72.² So, for IRA owners and plan participants who are 5% or more owners, the required beginning date is April 1 of the year after the year the owner reaches age 72. In contrast, plan participants who are not 5% or more owners and for 403(b) participants, the required beginning date is typically April 1 of 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 1 required beginning date only applies to the RMD for the first year.

When to Use Age 70.5 or 72?

The new rules apply to individuals who did not reach age 70.5 by December 31, 2019; individuals born after June 30, 1949. So, an individual who reached age 70.5 in 2019 cannot wait until age 72 to begin RMDs. The event time has been triggered and the individual must begin taking RMD by April 1, 2020.³



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, 2020.³
- 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 1 of the following year after reaching age 72 to begin taking your first RMD. However, this April 1 deadline only applies to the RMD for the first year. Every year thereafter, a participant must take distributions by December 31.

- John turns 72 on Aug. 20, 2021. He has until April 1, 2022, to take his first required minimum distribution, which would be based on his 2020 year-end balance.
- If John waits until April 1 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.⁴

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 shown on the last page. The account balance is determined as of the end of the prior year (December 31, 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 1 of the following year. Ordinarily, the second distribution is due by December 31 of the same year. Of course, if the participant already began RMD and/or turned 70.5 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, 2022. Her IRA balance at the end of 2021 was \$500,000. Her life expectancy factor in 2022, taken from the current Uniform Lifetime Table, is 27.4 years. Her required distribution for 2022 would be \$18,248 ($\$500,000/27.4$), due no later than April 1, 2023. In addition, Marjorie would need to take a second distribution by December 31, 2023, based on her 2022 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 27.4, their joint life expectancy is 32.7 years. Marjorie's first required distribution would be \$15,290.52 ($\$500,000/32.7$). 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.



Changes to Tables Used to Calculate Required Minimum Distribution.

In addition, to the recently enacted changes to the RMD rules the IRS has finalized an update to the tables used to calculate the required minimum distributions. The tables reflect longer life expectancies than the current table and so would provide smaller annual RMDs. The tables apply for distribution calendar years beginning on or after January 1, 2022. For many individuals the switch will be simple. Consider the following:

Example: Assume an individual born on July 1, 1950, has a qualified plan balance of \$1 million on 12/31/2021. The individual turns 72 in 2022. Since the first calendar distribution year is 2022 the year the individual turns 72 the new distribution tables can be used providing a factor of 27.4 and resulting in an RMD of \$36,496 (\$1 million divided by 27.4). This first distribution can be delayed to April 1, 2023. The old table would have resulted in a distribution of \$39,063 (\$1 million divided by 25.6), \$2,567 more than the new table amount.

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 1 the year after an individual reaches age 72, but subsequent RMDs are due by each December 31. This adds a little more complexity. Consider the following:

Example: For an individual who attains age 72 in 2021, the new tables would not apply to the 2021 RMD due April 1, 2022, but, would apply to the 2022 RMD due December 31, 2022.

The process for determining how much to distribute is also more complex for individuals who inherited IRA or employer qualified plan accounts who died prior to 2022. The regulations contain a transition rule . . . but more on this in next month's Counselor's Corner.

In Summary. 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 to stretch the withdraw using the lifetime required minimum distribution 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 changes by employing a variety of strategies from simple solutions like increasing lifetime 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 enacted and present various strategies that can help clients accomplish their goals.

¹ On March 29, 2022, in a bipartisan 414-5 vote the House passed legislation known as SECURE 2.0 which proposes additional changes to the RMD rules. The Senate's version has some notable differences.

² Both the House and Senate SECURE 2.0 bills propose deferring the required beginning date to age 75. The House bill does this in three phases (age 73 starting in 2023, age 74 in 2030 and age 75 in 2033); while the Senate bill delays the change to 2032 when the age would jump from age 72 to 75.

³ Due to the impact of COVID-19 the CARES Act suspended most RMDs for calendar year 2020.

⁴ The House SECURE 2.0 bill proposes to reduce the excise tax from 50% to 25% for individuals who take a distribution from a retirement plan that is less than required. This can be reduced to 10% if corrected within 2 years.



Uniform Lifetime Table

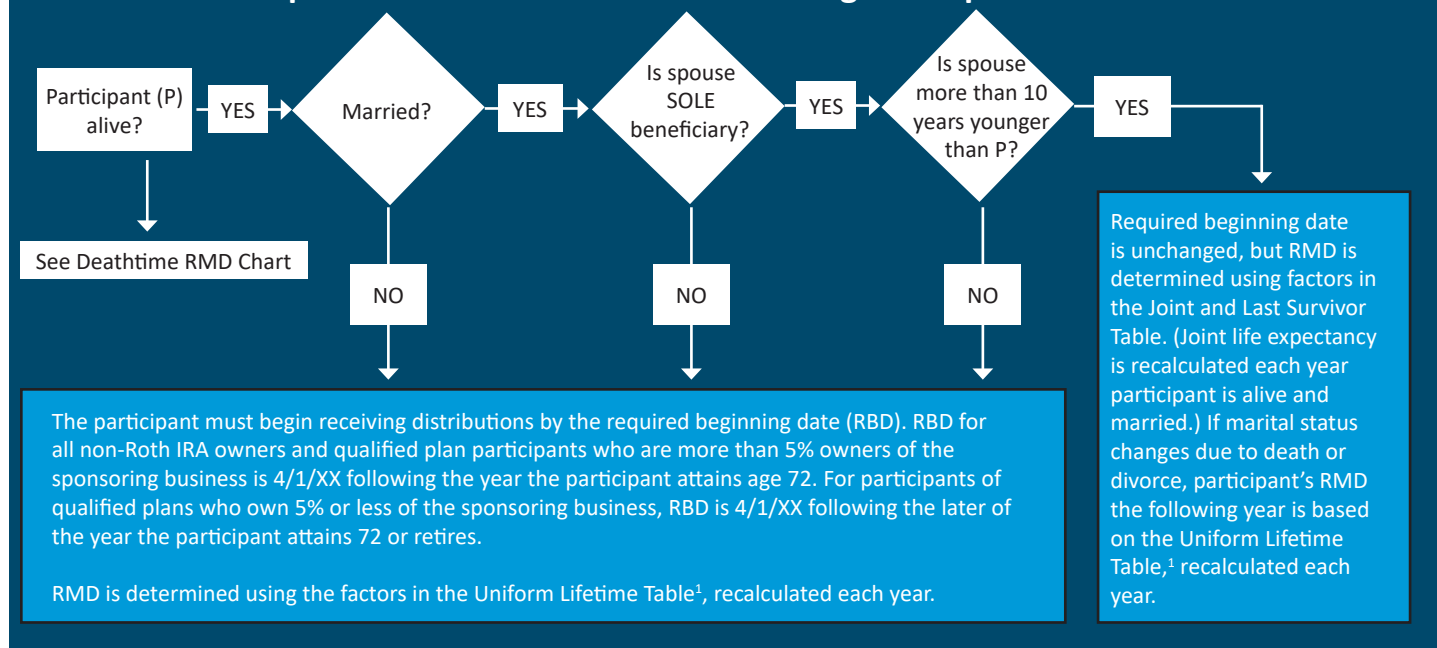
The table that follows is used to calculate lifetime minimum required distributions. For owner/participants with a spouse more than 10 years younger who have named their spouse as beneficiary, a different table (Joint and Survivor Table VI, set forth in Treas. Reg. §1.401(a)(9)-9) may be used instead.

Pre 2022 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

Uniform Lifetime Table Effective for Distributions Starting 2022			
Age	Distribution Period	Age	Distribution Period
70	N/A	96	8.4
71	N/A	97	7.8
72	27.4	98	7.3
73	26.5	99	6.8
74	25.5	100	6.4
75	24.6	101	6.0
76	23.7	102	5.6
77	22.9	103	5.2
78	22.0	104	4.9
79	21.1	105	4.6
80	20.2	106	4.3
81	19.4	107	4.1
82	18.5	108	3.9
83	17.7	109	3.7
84	16.8	110	3.5
85	16.0	111	3.4
86	15.2	112	3.3
87	14.4	113	3.1
88	13.7	114	3.0
89	12.9	115	2.9
90	12.2	116	2.8
91	11.5	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.	<i>Example: Assume that on December 31 of the year immediately preceding the year P turned 72, P's account value was \$274,000.</i>
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 27.4. 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.	$\$274,000 \div 27.4 = \$10,000$; thus, the RMD for the first year is \$10,000 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 26.5. The RMD for the second year would be $(\$285,000 \div 26.5)$ or \$10,754.72.

¹ The life expectancy tables can be found at the following sources: 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.

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