

Calculating Your RMD in 5 Easy Steps

What is an RMD (required minimum distribution)? An RMD is the minimum amount that must be withdrawn from a retirement account each year. The SECURE Act replaces annual RMDs with a 10-year payout period for most nonspouse beneficiaries who inherit in 2020 or later.

When are you subject to RMDs? Traditional IRA owners are subject to RMDs beginning in the year in which they turn age 72. The RMD age used to be 70½, but the SECURE Act raised the age to 72 for anyone who turned 70½ in 2020 or later. Beneficiaries of IRAs and/or Roth IRAs are subject to RMDs beginning in the year after the year of the IRA (or Roth IRA) account owner's death. The CARES Act waived 2020 RMDs from retirement accounts.

- 1. Determine your distribution year.** The distribution year is the year for which you are taking a distribution, not necessarily the year in which you take that distribution. You can delay your first RMD until April 1 of the year following the year you reach age 72. After the year you turn age 72, all distributions should be made by December 31 of each year for which they are being taken.
- 2. Find the retirement plan balance.** Use the balance as of December 31 of the prior year. Add back any outstanding rollovers.
- 3. Determine the life expectancy factor.** Most IRA owners look up their age on the Uniform Lifetime Table in order to determine their factor. If a spouse is the sole beneficiary of an IRA account for the entire year and is more than 10 years younger than the account owner, the Joint Life Expectancy Table is used. Most beneficiaries look up their life expectancy in the year after the year of the account owner's death using the Single Life Expectancy Table. Going forward each year that factor would usually be reduced by one (there are some exceptions for spousal beneficiaries). Make sure to look up the actual ages of the individual as of the last day of the year.
- 4. More mathematics.** Divide the retirement plan balance (step 2) by the life expectancy factor (step 3). The result is the RMD that must be taken. Be sure to take the RMD by December 31 of the distribution year (except IRA owners in the year of their first distribution). REMEMBER there is a 50% penalty for any portion of an RMD that is not taken.
- 5. Take notice.** RMDs from owned IRA accounts can be aggregated and RMDs from owned 403(b) accounts can be aggregated. Accounts inherited from the same person can aggregate RMDs. All other types of accounts cannot be aggregated.

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