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A monthly savings tip from the American Savings Education Council (ASEC)—Feb. 2014

The Requirements of Required Minimum Distributions (RMDs)

When you think about saving, you generally think about setting money aside for the future, or for a specific goal. But once you reach the goal of retirement, you will want to be careful about how you withdraw those savings. After a certain age, you can be fined if you don't start drawing down from a tax-preferred savings plan.

Employer-provided retirement plans, such as 401(k)s, 403(b)s, and 457(b)s, as well as individual retirement accounts (IRAs), are subject to Internal Revenue Service (IRS) rules that require withdrawals be made from those accounts once you reach a specific age. If you don't follow those rules, the penalties on your savings can be significant.

Those "required minimum distributions," or RMDs, generally must begin by April 1 of the calendar year following the calendar year in which you turn 70½. Additionally, unless you are a 5% owner of the business, if your retirement plan allows it, you may defer the start of the RMD until you actually retire from the employer maintaining the plan.

Note: There are no RMD requirements for a [Roth IRA](#) while the owner is alive. However, designated Roth accounts are subject to the RMD rules.



How much do I have to withdraw?

The amount you have to withdraw—the RMD—is generally based on the joint life expectancy of you and your beneficiary. The idea is that you have put off paying taxes on those monies until retirement, and once you have retired, you must start withdrawing (and paying taxes) on that money. The amount is based on your life expectancy because the IRS effectively is assuming that you will have withdrawn all the money in those accounts over your lifetime.

The RMD for each year is determined by dividing the retirement savings account balance as of the end of the prior year by the number of years over which you will be taking the distribution. 401(k) and profit-sharing plans must calculate these amounts by dividing your account balance at the end of the calendar year prior to the year in which the RMD is to be made, based on the appropriate number from tables you can find [here](#).

What happens if I don't take the RMD?

Failure to withdraw the RMD triggers a 50% penalty tax of the amount that you should have taken out, but didn't. Because of this penalty, you will want to make sure that you not only take the RMD each year, but that you take the correct amount.

You CAN withdraw more than the RMD, if you want. Note also that, while your IRA custodian or retirement plan administrator may calculate the RMD, the IRS holds you ultimately responsible for calculating the proper amount. For more information, see IRS Frequently Asked Questions (FAQs) on RMDs (including a handy table highlighting the rules) can be found [here](#).