

AVOIDING COMMON ERRORS

Surrounding RMDs

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When it comes to their retirement accounts, many investors often fail to think about required minimum distributions (RMDs). That oversight can lead to unnecessary tax burdens and other financial issues. In order to handle RMDs effectively, an understanding of the rules—and common errors people make—can be beneficial.

Common error: *I took an RMD from my 401(k). This will satisfy both the RMD for that account and the one I have to take for my IRA—or any other account for that matter.*

What the rules say: RMDs can be aggregated for certain accounts. For instance, if you have multiple traditional IRAs, you can take an RMD from one account that equals the total amount of RMDs you would have to take from all accounts. So, if you have two traditional IRAs and each has an RMD of \$1,000, you can withdraw \$2,000 from one account to satisfy both RMDs. RMDs for SEP, SIMPLE, and Rollover IRAs can be aggregated with traditional IRAs as well.

This same RMD aggregation rule can be applied to multiple 403(b) plans, too. You cannot, however, take an RMD from a 403(b) plan to satisfy an RMD from an IRA. And when it comes to 401(k)s and other non-IRA accounts, such as profit-sharing plans, you must take a separate RMD from each plan.

Common error: *My mother passed away and left me her IRA. She hadn't yet taken an RMD for the year. I don't need to take one either.*

What the rules say: When you inherit a traditional IRA from which the decedent (i.e., original account owner) was taking RMDs, it is up to you, as the beneficiary, to satisfy any missed distribution and to pay the taxes on that distribution at your marginal tax rate. If there are multiple beneficiaries, the RMD amount is typically divided among the group, and each person is responsible for paying taxes on his or her portion from his or her own IRA beneficiary distribution account (BDA).

Tip: When multiple siblings are involved, one beneficiary may want to take a lump-sum distribution of the inherited account, rather than continue taking RMDs from an IRA BDA. In this case, the sibling taking the lump sum could use some of those funds to satisfy the decedent's missed RMD, leaving the other siblings' IRA BDAs intact until they reach their required beginning date (RBD) and have to start taking their personal RMDs. Of course, this would require the sibling taking the lump-sum distribution to agree to the solution.

Common error: *I just retired and have a substantial RMD due from my 401(k) plan. I can just roll the 401(k) into an IRA and take the RMD from the IRA.*

What the rules say: Although you can roll your 401(k) into a traditional IRA, the RMD amount is not eligible for rollover. The 401k RMD must be satisfied from the 401k prior to the rollover. If, for some reason, the financial institution makes a mistake and allows the RMD to be rolled with the other eligible assets, the RMD is deemed to be satisfied from the 401k, but now represents an excess amount in the IRA since RMDs are not eligible for rollover. The amount of the 401k RMD would get removed as a return of excess from the IRA to correct the error.

Otherwise, the RMD would be taken entirely from the traditional IRA; as we know from the first error outlined

Common error: *I am still working, so I don't have to take an RMD from my SEP or SIMPLE IRA at my current employer.*

What the rules say: Although you do not have to take an RMD from a 401(k) plan if you are still working and do not own 5% of the company, this exception does not exist for SEP or SIMPLE IRAs. Once you reach age 73, regardless of employment status, RMDs need to come out of SEP and SIMPLE plans.¹

¹ If the account owner turned age 70½ before January 1, 2020, then RMDs must begin at age 70 1/2. If turned 72 before January 1, 2023, RMDs must begin at 72.

Quick Facts About RMDs

- RMDs generally begin at age 73.¹
- IRA RMDs can be aggregated.
- 403(b) plan RMDs can be aggregated.
- Qualified plan RMDs (i.e., 401(k) or profit-sharing plans) cannot be aggregated.
- IRA-based plans (SEPs, SIMPLEs, and SAR-SEPs) always have RMDs at age 73.
- Depending on the circumstances, inherited retirement accounts must distribute RMDs over the beneficiary's life expectancy or the full balance must be depleted within 10 years of the original owner's death.
- When inherited, both Roth and traditional IRAs have RMDs.
- Designation Roth accounts (i.e., Roth 401(k)s, 403(b)s, and 457(b)s) no longer have RMDs starting in 2024.



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