

Required minimum distributions



Wealth Management

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Retirement planning is all about envisioning your retirement lifestyle, and then saving and investing for your future. The primary goal is to make sure you'll have enough financial resources in retirement and to satisfy other legacy goals you may have. For most individuals, saving for retirement means funding individual retirement accounts (IRAs) and other employer-sponsored retirement plans.

An IRA is not designed to shield savings from taxes indefinitely. Consequently, when you reach the age of 73, the IRS requires that you begin taking distributions from your traditional IRAs, whether you need the income or not. These withdrawals are called required minimum distributions (RMDs).

In addition to traditional IRAs, most employer-sponsored retirement plans are subject to RMDs. The rules governing RMDs from employer-sponsored qualified plans vary slightly from traditional IRA RMD rules. So, if you have assets in this type of plan, please contact your employer, or former employer, for further information regarding your RMDs.

Roth IRAs, however, are different. You are not required to take any distributions from a Roth IRA during your lifetime. Required distributions from Roth IRAs are not mandated until a non-spouse beneficiary inherits the account.

When must RMDs be taken?

The chart below outlines at what age an individual needs to start their RMDs.

Birth year	RMD age
1950 or earlier	72 (70.5 for those who turned 70.5 before 1/1/20)
1951–1959	73
1960 or later	75

Your first RMD must be taken for the year in which you attain the age indicated above. However, you have some flexibility with your distribution in your first year. You can take the distribution during the year you turn this age or you can delay it until April 1 of the following year; this date is known as your required beginning date (RBD). Subsequent annual distributions must be taken by December 31 of each year.

Please note that if you delay your first distribution until the following year, you will be required to take two distributions during that second year, one for your first year RMD and one for your second year distribution. You will want to compare the advantage of leaving the money in your IRA for as long as possible with the tax consequences of taking two distributions in one year.

How are RMDs calculated?

Your minimum distribution amount is calculated each year by dividing your ending account balance from the previous year (as of the close of business on December 31) by your applicable life expectancy factor.

There are two ways to determine the applicable life expectancy factor:

- If your sole beneficiary is your spouse, and they are more than 10 years younger than you, the applicable life expectancy factor is based on the joint life expectancy of you and your spouse from Table II in IRS Publication 590.
- In all other cases, the applicable life expectancy factor used is from the Uniform Lifetime Table (IRS Table III), as illustrated on page 2.

Taking your RMD

A distribution from your RBC Wealth Management IRA can be processed in a number of ways. You can:

- Schedule automatic distributions
- Submit a distribution form for each distribution
- Set up On Demand Distributions
- Establish IRA check writing and withdraw your RMD yourself
- RMDs can be distributed in either cash or securities from your IRA
- Securities are valued at the closing price on the day prior to the distribution
- A cash distribution can be made in the form of a check, sent directly to your bank or journaled to your RBC Wealth Management retail account. Securities can also be distributed to your RBC Wealth Management retail account.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

Your RBC Cash Management Account provides several options for easily accessing your retirement paycheck. Some of these options include:

- Visa® Platinum Debit Card
- Check writing
- Online bill pay
- Electronic transfer of funds—ACH and wire transfers

Taxation of RMDs

Distributions from your IRA are generally subject to federal (and possibly state) income tax for the year in which you receive the distribution. However, a portion of the funds distributed to you may not be subject to taxation if you have ever made nondeductible (after-tax) contributions or if you've ever rolled over after-tax dollars from an employer-sponsored retirement plan to your traditional IRA. Since nondeductible contributions were already taxed, they will be tax-free when you withdraw them, although the earnings on the contribution will be taxable. You should consult a competent tax professional if your traditional IRA contains any nondeductible contributions.

Penalties for missed RMDs

There is a 25% penalty for missed RMDs. This excise penalty is reduced to 10% if the missed RMD is corrected between January 1 of the year following the year of the missed RMD and upon the earliest of the following dates:

- When the Notice of Deficiency is mailed to the client,
- When the tax is assessed by the IRS, or
- The last day of the second tax year after the tax is imposed.

Additional information

- The amount of your RMD will change each year because your account value and life expectancy factor will change.
- You may always take more than the minimum amount.
- Income tax withholding from IRA distributions is voluntary.

Planning

Understanding your RMD is an important part of your retirement planning. Your RBC Wealth Management financial advisor can work with you to:

- Develop a well-rounded retirement saving and retirement income plan
- Effectively manage your assets in retirement
- Plan appropriately for leaving assets to your beneficiaries

Together, you will review this plan periodically and make any necessary adjustments to assist you in achieving your goals.

Uniform Lifetime Table III*

Age	Factor
73	26.5
74	25.5
75	24.6
76	23.7
77	22.9
78	22.0
79	21.1
80	20.2
81	19.4
82	18.5
83	17.7
84	16.8
85	16.0
86	15.2
87	14.4
88	13.7
89	12.9
90	12.2
91	11.5
92	10.8
93	10.1
94	9.5
95	8.9
96	8.4
97	7.8
98	7.3
99	6.8
100	6.4
101	6.0
102	5.6
103	5.2
104	4.9
105	4.6

* You can view the full table at <https://www.irs.gov/forms-pubs/about-publication-590-b>.

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