# Understanding IRAs and RMDs

*Keeping you informed is essential in a world where information is a treasured commodity. And with the constant changes that occur regarding tax laws and investments, you want to ensure that you have access to information that is current and accessible.*

*This brochure details information about individual retirement accounts (IRAs), including required minimum distributions (RMDs), beneficiary designations and distribution options, and it gets right to the specifics.*

## What happens when you're 70½

### A new investment chapter

If you've invested in a traditional IRA, then you probably know that you cannot keep funds in a traditional IRA indefinitely. A traditional IRA is a retirement account that requires you to pay taxes when you withdraw from it. If you do not make any withdrawals, or if you do not withdraw enough, you may have to pay a 50% excise tax on the amount not withdrawn as required.

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The Internal Revenue Service (IRS) has mandated that you must start taking your required minimum distributions (RMDs) from the IRA by April 1 of the year following the year in which you attain the age of 70½. This is known as the required beginning date. The RMD for any year after the year in which you turn age 70½ must be made by December 31 of that year.

Understanding the RMD rules is important if you fall into one of the following categories:

- You will turn age 70½ this year or in the next few years.
- You are the beneficiary of an IRA and the IRA owner recently passed away.

# Designating a beneficiary

### Choices and flexibility

A beneficiary is the person(s) or entity designated by the IRA owner to inherit his or her assets upon death. Owners may change beneficiaries as often as they wish without penalty, and beneficiaries can choose from several distribution options.

### After the owner's death:

- The beneficiary can take a distribution of some or all of the account or choose to receive RMDs based on his or her own life expectancy.
- The IRS permits a grace period of until September 30 of the year following the owner's death to determine if a beneficiary is permitted to receive distributions over life expectancy. This flexibility accommodates those who wish to cash out or waive their right to collect assets without affecting the other beneficiaries' RMDs.
- The beneficiary can disclaim the assets in favor of transferring them to a contingent beneficiary, which creates expansive opportunities for estate planning. Keep in mind that disclaiming assets involves compliance at both the state and federal levels.
- Spousal beneficiaries are given special, more favorable rules compared with non-spouse beneficiaries.

# Required minimum distribution calculation

### During an IRA owner's lifetime

There is basically one method for calculating RMDs. The RMD for each year generally is determined by dividing the IRA balance as of December 31 of the prior year by a life expectancy factor. Consult your financial professional for the determination of your RMD each year.

After naming a beneficiary, an IRA owner may change beneficiaries as often as he or she likes without affecting lifetime RMD payments.

### After an IRA owner's death

After an IRA owner dies, RMD rules apply to the beneficiary. The rules for determining RMDs for beneficiaries depend upon who the beneficiary is (spouse, non-spouse, trust, charity, etc.) and whether the IRA owner died before or after the required beginning date. The federal tax regulations governing RMDs for IRA beneficiaries can be complicated. Therefore, if you are the beneficiary of an IRA, and the IRA owner recently passed away, you should consult a financial professional for discussion about distribution options available to you.

If you have multiple IRAs, the worksheet on the next page can be used as a tracking device and to assist with your RMDs and beneficiary designations.

# Where are your IRAs? The Worksheet

| Location | Investment Type | Account Number | Maturity Date (if any) | Current Value | Value as of December 31 | Beneficiary/ies |
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