

RMDs—What you Need to Know

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We receive a lot of questions about Required Minimum Distributions or RMDs, what are they, who needs to take them, when do you have to take them, and what happens if you don't? So, let's address a few of the basic questions here.

What is an RMD? A Required Minimum Distribution is the required amount the owner of a retirement account must withdraw from that account each year. This applies to Traditional, Simple and SEP IRAs. It does not apply to 401(k) or 403(b) plans or Roth IRAs.

Who must take it and when does an RMD have to be taken? The SECURE Act of 2019 pushed back the age RMDs must start. For those born on or after 7/1/1949, you must take your first RMD by April 1 of the year after you turn 72. Subsequent RMDs must be taken by December 31 of each year. If you do wait until April 1 of the year after you turn 72, will have to withdraw 2 full RMDs that year, one for the year you turned 72 and one for the current year. That could have tax implications for you so please consult your financial adviser and your accountant. It's important to note that for those born before 7/1/1949, the age for taking the first RMD remained at 70-1/2. The CARES Act of 2020 provided a temporary waiver of RMDs including for those who turned 70-1/2 in 2019 and were required to take their RMD by April 2, 2020.

Does the same rule apply to Inherited IRAs? Generally, the same rules apply, however, if the date of death of the original owner is January 1, 2020, or after, the beneficiary may be required to liquidate the entire Inherited IRA account within 10 years after the date of death. The beneficiary can also make tax-free withdrawals from the account if the original owner held the account for five or more years.

How do you calculate an RMD? To calculate your RMD, you divide your IRA account balances as of December 31 by the IRS life-expectancy factor based on your birthday in the current year. It can be a bit confusing so at Knox Grove, we make it a point every year to ensure that our clients know what their RMD calculation is for each of the accounts we manage.

What if I have more than one qualifying retirement account? You are not required to take the full RMD amount from the same IRA account. You can take a partial withdrawal from several IRA accounts as long as you withdraw the full RMD amount for the year. You're also not required to take your RMD all at once, you can set up automatic monthly or quarterly withdrawals.

What happens if I don't withdraw the full RMD by the deadline? Probably not a good idea. You could get penalized by the IRS for 50% of the shortfall. For example, if you were supposed to take \$20,000 and you only withdrew \$10,000, you would incur a \$5,000 penalty.

What if I don't need the money? That's a good problem to have! You must still take your RMD, but you can reinvest it in a taxable account or if you are eligible, in a ROTH IRA. You may also be able to make a Qualified Charitable Contribution (QCD) potentially reducing your taxable income. Some clients who do not need the RMD to fund their living expenses often buy life insurance to create a larger tax-free benefit to their heirs. We refer to this as a wealth transfer strategy.

There are other factors to consider when taking your RMDs like how and when you take them affects your taxes, whether you should take them in cash or in-kind, and how your RMD choices affect your beneficiaries.

For more information on managing your Required Minimum Distributions or to get started on your financial path forward, please call our office at 609-216-7440.

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