**RMDs Are Back on Track for 2021**

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**The waiver of required minimum distributions for 2020 is coming to a close; those that are of RMD age must resume RMDs for 2021 and beyond. RMDs for beneficiary IRAs will need to resume in 2021 as well.**



The year 2020 is one of the most eventful in recent times, and changes to the rules that govern retirement accounts offer no exception. One of these changes is the waiver of required minimum distributions (RMDs) for 2020. As a result of this waiver, your clients have no RMDs to take for 2020.

But those that are of RMD age in 2021 must resume RMDs for 2021 and continue for every year after. RMDs were waived for beneficiary IRAs as well and will need to resume in 2021 for certain beneficiaries.

**Reminder:** RMDs do not apply to Roth IRA owners.

**RMDs: A mild refresher**

An RMD is the minimum amount that an account holder must distribute (or withdraw) from a retirement account, for any RMD year. More than the RMD can always be distributed, but a distribution of *less than* an RMD amount will result in the account holder owing the IRS an excess accumulation penalty of 50% of the RMD shortfall.

For example, if the RMD for an IRA for 2021 is $20,000 and 2021 distributions total only $12,000, the account holder would owe the IRS an excess accumulation penalty of $4,000 [($20,000 - $12,000) x 50%].

For an IRA owner who is required to take RMDs for 2021, the IRA custodian will issue an RMD notice by January 31, 2021. This will include the calculated RMD amount or an offer to calculate the amount upon request. This requirement does not apply to beneficiary IRAs.

**New RMD age: A reminder**

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, passed in late 2019, increased the RMD beginning age for IRA owners from age 70½ to age 72. As a result of this change, any IRA owner who reached age 70½ by December 31, 2019—those born June 30, 1949 or earlier—must begin taking RMDs for the year they reach age 70½ and continue for every year thereafter (except for 2020, when RMDs are waived). IRA owners who reach age 70½ after December 31, 2019 must only begin RMDs for the year they reach age 72.

**RMDs are due for 2021 if…**

Whether an IRA holder must take an RMD for 2021 depends on factors that include (1) whether it is the individual’s own IRA and their age in 2021 or (2) if it is a beneficiary IRA, and if so, when it was inherited.

**If it is the individual’s own IRA**

For 2021, IRA owners must take an RMD from a non-beneficiary IRA if they were born at any time in 1949 or earlier, as this means that the IRA holder would be at least age 72 on December 31, 2021.

If the IRA holder was born in 1950 and after, no RMD would be due for 2021 because they would not have reached age 70½ by December 31, 2019 and thus would be under age 72 as of December 31, 2021.

**If it is a beneficiary IRA, including a beneficiary Roth IRA**

For beneficiary IRAs, whether the IRA holder must take an RMD for 2021 depends on several factors. These start with when the IRA was inherited.

**A. Inherited before 2020**

If the IRA was inherited before 2020—including a Roth IRA—the beneficiary must take an RMD for 2021 if:

*The beneficiary IRA must be distributed within five years (the 5-year rule), and the IRA was inherited in 2015.* This is because 2020 was not counted due to the RMD waiver, making 2021 year five of the five-year period.

1. 2016
2. 2017
3. 2018
4. 2019
5. 2021

Under the 5-year rule, distributions are optional until the end of the fifth year that follows the year the IRA owner died, at which time the entire account must be distributed.

*Distributions are taken under the life-expectancy rule.* Under this option, the beneficiary must take a beneficiary RMD for every year that follows the year in which the IRA owner died (except for 2020).

*Please note:* For spouse beneficiaries, exceptions could apply. For example, if the IRA owner would have reached age 70½ after 2021, there would be no RMD due for 2021. Instead, the first RMD would be due the year the decedent would have reached age 70½. Also, the owner rules above would apply if the spouse beneficiary elects to move the assets to their own IRA.

**B. Inherited in 2020**

If the IRA was inherited in 2020—again, including a Roth IRA—an RMD must be taken for 2021 if the beneficiary is an eligible designated beneficiary who is taking distributions over his or her life expectancy. Individuals are considered eligible designated beneficiaries if they are:

1. The surviving spouse of the IRA owner. *But, the owner rules above apply if a beneficiary elects to treat the IRA as their own*, instead of electing the beneficiary IRA option.
2. Disabled
3. Chronically ill
4. A minor, as defined under state law
5. None of the above, but is not more than 10 years younger than the IRA owner.

In other cases, distributions for 2021 are optional, as the 10-year rule would apply. Under the 10-year rule, distributions are optional until December 31 of the tenth year that follows the year the IRA owner dies, at which time the entire balance must be distributed. (For more on this, see [“The SECURE Act’s 5 Most Advantageous IRA Changes.”](http://www.horsesmouth.com/the-secure-act-s-5-most-advantageous-ira-changes))

***Spouse beneficiary caveat:*** For a surviving spouse beneficiary who elects to keep the funds in a beneficiary IRA, no RMD would be due for 2021, if the decedent would have reached age 72 in a later year.

**RMDS may be due from employer-plan accounts, too**

Clients with accounts under employer-sponsored plans—such as 401(k) and 403(b) plans—might need to take RMDs from accounts under those plans. If you have clients of RMD age with assets under employer-sponsored plans, encourage them to contact their plan administrators or HR department regarding their RMD polices to determine whether they will automatically distribute RMDs or if your clients are required to submit RMD instructions.

Remind clients to be careful if they plan to roll over amounts from these accounts, because RMDs may not be included in those rollovers. Ideally, clients should contact you before initiating any rollovers, so that you can help them to avoid mistakes.

**Reviewing RMDs can help to avoid penalties**

Even though IRA custodians would calculate RMDs for non-beneficiary IRAs, it is still advisable to review those calculations when practicable. This is primarily because IRA custodians are permitted to make assumptions that could cause RMD calculations to be incorrect. For example, IRA custodians are not required to add outstanding rollovers to the fair market value when calculating RMDs, which would result in an RMD shortfall.

Also, in cases where the spouse is the sole primary beneficiary of the IRA and is more than 10 years younger than the IRA owner, the joint life expectancy table can be used—and that would produce a lower RMD amount. However, IRA custodians are permitted to ignore that and use the uniform lifetime table, which assumes the beneficiary is 10 years younger than the IRA owner, regardless of the beneficiary’s age.

RMD penalties are high and requesting a waiver can be bothersome. To avoid having to deal with excess accumulation, conduct a review of clients’ RMDs to ensure that the required minimum amount is properly distributed.

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